GLOBAL CLIMATE CHANGE INVESTOR GROUPS PUBLISH REPORT ON INVESTOR PRACTICES RELATING TO CLIMATE CHANGE

Fund managers are incorporating climate risks into investment decisions; majority of pension funds say levels of climate change integration influenced manager selections.

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The European Institutional Investors Group on Climate Change, the North American Investor Network on Climate Risk, the Australia/New Zealand Investor Group on Climate Change and the Asia Investor Group on Climate Change have today published a report detailing the investment practices of asset managers and asset owners such as pension funds, relating to climate change.

The report details the results of the third global survey of investment practices, which was conducted by Mercer and is based on responses from thirty-seven asset owners and forty-seven asset managers with collective assets totalling more than USD $14 trillion.

The results show that a majority of investors view climate change as a material risk and as a consequence have retained, and in many cases advanced, their commitment to addressing climate change in their investment activities. This is despite wider economic challenges and continuing policy uncertainty. There is a clear trend in the results showing that climate risk analysis is performed within asset classes and for specific investments rather than at the portfolio level. In equity portfolios for example an analysis of climate risk was performed by almost all respondents.

Assessments of climate risk are directly influencing investment decisions. Fifty-three per cent of asset managers said that they decided to divest or not invest in listed equities based on climate change concerns, and a majority of asset owners (sixty-nine per cent) said that climate change integration influenced their fund manager decisions in 2012. This was a marked increased on the forty-three per cent who declared the same last year.

An increasing number of asset owners – sixty-three per cent – also said they are monitoring their existing asset managers on how they integrate climate change into their investment processes. This is a ten per cent increase on last year. A majority have conducted formal or informal climate risk assessments of their portfolios.

Despite encouraging signs of progress in the assessment of both low carbon and emission intensive exposures, investors face a number of challenges. These include a lack of clarity on which investments should be measured; patchy carbon signals; limited data, particularly for fixed interest investments and inadequate company disclosures.

Stephanie Pfeifer, Chief Executive of the European Institutional Investors Group on Climate Change, said:

"There are some extremely encouraging findings in this year’s report. Despite the wider economic challenges, climate change is firmly established as a material risk for investors, and their assessment of climate risk is shifting investment decisions. However, investors still face many challenges, not least the on-going policy uncertainty which continues to make measuring long term climate risk and emissions exposure difficult. While clear policy signals do much to help investors measure this risk, the report shows that investors are making progress in the absence of these signals and should continue to do so."
Chris Davis, Director of Investor Programs at Ceres, a US-based sustainability group that coordinates the Investor Network on Climate Risk (INCR), said:

“We are pleased that global investors are continuing to prioritize climate change as a material investment risk and source of investment opportunity. But much work remains to be done, especially in the U.S., to fully integrate climate risk into investment decision-making, and to advance public policies that will accelerate more low carbon investment.”

Nathan Fabian, Chief Executive of the Australia & New Zealand-based Investor Group on Climate Change, said:

“We are now at a stage where investment practice and climate policy will need to move together to address climate change risk. Policy will improve, but policy certainty will remain elusive. That is why aligning investment practice with the underlying risks of climate change is so important. It is also why understanding progress in investment practice is so important and why participants in this survey are to be commended for doing so.”

Alexandra Tracy, Senior Advisor to the Asia Investor Group on Climate Change, said:

“We are delighted to have been able to distribute the survey this year to the AIGCC network for the first time. Some of the greatest climate challenges are to be found in Asia, but many investors in the region are just beginning to consider how to respond. Participation in global initiatives like the survey is very valuable in helping investors to learn and benchmark from each other.”

The report also includes twelve case studies showcasing leading examples of climate and ESG risk monitoring by investors globally. These include the development by pension funds of new ESG benchmarks against which investments are assessed, and the commissioning of independent experts to undertake comprehensive reviews of climate change investment policies, such as is the case with the USD $12 billion Church of England National Investing Bodies.

Other key findings:

• Most asset owners in this year’s survey (83%) consider the extent to which managers integrate climate change into their investment process and ownership activities and 69% indicated that it influenced their selection decision (up from 43% last year).
• 25% of asset owners continue to make changes to their investment strategy based on their assessments of climate risk, in spite of on-going global policy uncertainty. This number is unchanged since last year.
• There has been a meaningful improvement in the adequacy of consulting advice on climate change, with 71% providing a favourable response compared to 26% last year.
• 70% of asset owners and 60% of asset managers reported low carbon investments.
• 40% of asset owners included climate change criteria in the Investment Management Agreements (IMAs) for new mandates.

To view the full report please click here or visit globalinvestorcoalition.org

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About the Institutional Investors Group on Climate Change (IIGCC)

The Institutional Investors Group on Climate Change (IIGCC) is a forum for collaboration on climate change for European investors. The group’s objective is to catalyse greater investment in a low carbon economy by bringing investors together to use their collective influence with companies, policymakers and investors. The group currently has over 80 members, representing assets of around €7.5 trillion.

In detail, the IIGCC’s objectives are to: 1. encourage a pro-active approach amongst asset owners and asset managers on climate change; 2. improve company disclosure/performance on climate change; 3. encourage public policy solutions that ensure a move to a low carbon economy and which are consistent with long-term investment objectives.

www.iigcc.org

About the Investor Network on Climate Risk (INCR)

The Investor Network on Climate Risk (INCR) supports 100 institutional investors with assets exceeding $10 trillion in addressing the financial risks and investment opportunities associated with climate change. INCR works with its members on climate-related investment practices, corporate engagement, corporate disclosure and policy issues.

INCR is coordinated by Ceres, a US-based coalition of investors, environmental groups and other public interest organizations working with companies to address sustainability challenges including climate change and water scarcity.

Launched by 10 investors in 2003 at the first Investor Summit on Climate Risk hosted by Ceres at the United Nations, INCR has grown to include leading North American institutional investors. It works to shape responsible investment practices among state and city treasurers and comptrollers, public and labour pension funds, foundations, other institutional investors and a wide range of asset managers.

www.incr.com
About the Investor Group on Climate Change (IGCC)

The IGCC represents institutional investors, with total funds under management of approximately $1 trillion and others in the investment community interested in the impact of climate change on investments. IGCC’s 60 members aim to encourage government policies and investment practices that address the risks and opportunities of climate change, for the ultimate benefit of superannuants and unit holders. We also aim to:

• Raise awareness of the potential impacts, both positive and negative, resulting from climate change to the investment industry, corporate, government and community sectors;
• Encourage best practices approaches to facilitate the inclusion of the impacts of climate change in investment analysis by the investment industry; and
• Provide information to assist the investment industry to understand and incorporate climate change into the investment decision.

www.igcc.org.au

About the Asia Institutional Investors Group on Climate Change (AIGCC)

The Asia Investor Group on Climate Change (AIGCC) was established in 2011 by the Association for Sustainable and Responsible Investment in Asia (ASrIA) as a forum for investors, insurers and banks in Asia to examine risks and opportunities associated with climate change and low carbon investment in the region. Offering Asia-specific tools, resources and research, AIGCC is a platform for financial institutions to share best practice and collaborate on investment activity, risk management, engagement and policy. AIGCC provides a strong Asian voice on climate change to compliment perspectives from other parts of the world.

http://aigcc.asria.org/

About the Global Investor Coalition on Climate Change

In December 2012, the four regional climate change investor groups, IIGCC (Europe), INCR (North America), IGCC (Australia & New Zealand) and AIGCC (Asia) formed the Global Investor Coalition on Climate Change (GIC) for joint projects and initiatives that benefit from global collaboration. The coalition provides a global platform for dialogue between investors and governments on policy and investment practice related to climate change and a focal point for international fora. The work of the GIC is guided by a three-year Action Plan leading up to 2015 consistent with the priorities of the member networks.

www.globalinvestorcoalition.org