The Big Read Climate change

Money managers: the new warriors of climate change

Spreadsheet-analysing investors in control of trillion-dollar funds are forcing polluters to change

Anjli Raval and Attracta Mooney in London 7 HOURS AGO

When an activist shareholder group last year launched a campaign to force Royal Dutch Shell to set hard targets for cutting carbon emissions, just 6 per cent of those eligible to vote backed the plan.

Yet within months Shell had announced an “ambition” to halve its carbon footprint by 2050, with the goal including a reduction in pollution from cars that burn the company’s petrol and diesel. Then in December it pledged to set firm short-term emissions targets from 2020 that will be tied to executive pay.

“If we don’t meet them there will be consequences to my salary and others,” says Ben van Beurden, Shell’s chief executive. “I hope you are in no doubt . . . [we are] absolutely serious about this.”

The turnround is stunning in an industry that for years was reluctant to take responsibility for its broad contribution to global warming, while spending millions of dollars on lobbying to counter efforts to cut emissions.

Mark van Baal, founder of Follow This, the activist group behind the Shell campaign, is in no doubt who is responsible for the shift: big investors, including the Church of England Pensions Board, which oversees the retirement pot for Anglican clergy, which formed part of the 6 per cent in favour of the activist group’s proposal.

“The real heroes of this story are the institutional investors,” he says.

Mr van Beurden echoes that, saying it was “dialogue” with investors that led to the “evolution” in Shell’s position.

Following decades of campaigning by environmentalists and non-government organisations, it is now spreadsheet-analysing money managers — responsible for the nest eggs of millions of people — who are forming a new generation of climate activists. And these activists are backed by trillions of dollars.

Polish pupils protest against climate change at the UN Framework Convention on Climate Change in Katowice in December

A growing number of individuals at asset managers, pension groups and sovereign wealth funds are using their power to push the biggest corporate polluters to tackle climate change, spearheading campaigns to cut carbon emissions, boost disclosure on climate risk and hold managers accountable.

“Big oil companies are more powerful than most governments,” says Mr van Baal, who is pushing companies including Shell, BP, ExxonMobil, Chevron and Equinor to set hard long-term targets. “Only the investors can make them change.”

For years the $85tn asset management industry largely shrugged off global warming, ignoring environmental campaigners in favour of dividends. But after the financial crisis the pressure from clients, policymakers and the public to hold companies to account intensified. The 2015 Paris accord , when 200 countries agreed to limit the rise in average global temperatures to “well below” 2C compared with pre-industrial levels, galvanised campaigners.

But the primary motivating factor for big-name investors — from BlackRock to Calpers, the California state employees’ pension fund — to act, is a realisation of the financial risk involved in these investments.

A global temperature rise above 1.5C would be catastrophic and the world has already warmed by about 1C since the start of the industrial age, largely due to greenhouse gases released from the burning of fossil fuels. Now oil and gas companies are under scrutiny like never before.

Unrestrained, their activities — which investors say are predicated on a future rise in global temperature of 3C — could accelerate global warming. There is also the concern that a continued push by governments to cut emissions to meet their Paris targets will trigger a transformation of the energy industry that would make a huge number of oil and gas projects uneconomic, diminishing the value of these assets and investors’ shareholdings.

For larger investors, there is also the fear of potential collateral damage: the behaviour of the oil and gas groups they invest in could hit other parts of their portfolio, from agri-food stocks suffering if crops fail to the falling share prices of companies which operate coastal infrastructure.

"Right-thinking people who understand the climate science here and are in positions of power and influence are now beginning to think, 'how does the financial ecosystem benefit or not from climate risk?'" says Steve Waygood, the chief responsible investment officer at Aviva Investors, the £350bn asset management arm of the British insurer. "While there are short-term gains to be made, the longer-term environmental disaster spells an economic disaster."

A 2015 study that has subsequently been used by investors to assess the value of the global total stock of manageable assets at risk due to climate change, estimated losses could range from $4.2tn to — in a worst-case scenario — $43tn between now and the end of the century. Pension funds that need to provide retirement incomes for decades to come are on high alert. As are insurers, which are facing a potential increase in payouts as rising emissions trap heat and trigger floods, droughts, forest fires and heatwaves, as well as hits to their investment portfolios.

This anxiety has sparked a wave of climate activism at the highest levels of the financial world over the risks associated with holdings in listed fossil fuel producers such as Shell, ExxonMobil and Chevron, even as these companies benefit from feeding rising energy demand as the world economy grows and populations swell.

Energy majors have been called on to cut emissions from fossil fuel extraction and processing, switch to producing low-carbon fuels, such as gas over coal or dirtier types of oil, improve efficiency in transmission and distribution and boost their presence in renewables. They are also being urged to invest in technologies such as carbon capture and storage.

Ethical funds: the managers

STEVE WAYGOOD

Leads sustainable and responsible investment analysis for Aviva Investors, the £350bn investment arm of the UK insurer. Has argued for reform of global capital markets to support development. Member of the Task Force on Climate-related Financial Disclosures

MINDY LUBBER

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Chief executive of Ceres, a sustainability non-profit group working with influential investors and companies to tackle climate change. Also director of the Investor Network on Climate Risk, a group of 130 institutional investors representing more than $17tn in assets

Time is running out, however, with the world on track to overshoot the Paris targets by the end of the century. “The task ahead is staggering,” says Mr Waygood. “It’s in the order of 10 Marshall Plans and 10 missions to the moon simultaneously.”

For investors, the first step is to assess the scale of the problem and Mark Carney, the governor of the Bank of England, has led an initiative to push energy companies and others to disclose climate risks.

Adam Matthews, director of ethics and engagement for the Church of England Pensions Board, says big investors have a fiduciary duty to investigate how many assets would lose value.

“We are all under an obligation to provide a return, but equally we’ve got to do it in a way that’s sustainable,” says Mr Matthews, who led the talks with Shell, alongside international asset manager Robeco, about setting hard targets for carbon emissions cuts on behalf of a group of investors called Climate Action 100+ that has a combined $32tn under management.

He says energy companies need to show they are capable of thriving in a low-carbon world, by shifting investments — such as from oil sands to cleaner energies. They could also curtail spending in legacy projects, manage their decline and prioritise shareholder returns.

“You are seeing the mobilisation of pension funds, which I must admit I never necessarily expected,” says Mr Matthews. Pension funds are on the front lines of whether the world transitions to a lower carbon economy and could be a “phenomenal lever of change”, he says.

The debate is still largely focused on making pledges rather than forcing action. But the matter has become more urgent and investors are increasingly filing and backing shareholder campaigns such as the one led by Follow This. The number of investor resolutions focused on climate change across all sectors doubled to 42 between the 2013-2014 and 2016-2017 voting seasons, according to data provider Proxy Insight.

Most notable was Exxon’s 2017 annual meeting, when more than 60 per cent of shareholders including BlackRock revolted and voted against the board. Exxon has subsequently improved its disclosure of information around climate change.

That vote put energy companies “on notice”, says Anne Simpson, director of global governance at Calpers, one of the world’s largest pension funds. “The time [for] delaying or fudging it were over,” she says. Collective action “takes us out of being victims, passively accepting these risks”.

Legal and General Investment Management, the $1tn asset manager, is among the investors expected to file more resolutions designed to hold individual board members to account. Some investors are discussing the launch of class action legal suits against laggards.

Sacha Sadan, director of corporate governance at LGIM, says that after Shell’s latest decision, pressure will now be on other oil majors and polluters in other sectors to set hard targets. “We always start with the biggest companies,” she adds.

Investors are also turning attention to those polluting companies that are pledging publicly to limit their emissions while privately backing lobbying by trade bodies designed to undermine global climate efforts. In October, a coalition of big investors wrote to 55 European companies— from BP to BMW — calling on them to review the positions adopted by their trade associations.

Ethical funds: the managers

ADAM MATTHEWS

The director of ethics and engagement at the Church of England Pensions Board oversees a £2.7bn fund, including holdings in Shell and BP. He is also founder of an initiative to assess companies' preparedness for the transition to a low-carbon economy

ANNE SIMPSON

Director of the board of governance and strategy at Calpers, the largest US public pension fund with $340bn under management. Sits on the governing committee for Climate Action 100+ which calls on companies to boost climate-related financial disclosures

Many pension funds are now pushing asset managers to prioritise climate change in discussions with companies, a survey by UK asset manager Schroders found. At the same time some investors, such as LGIM, are not only pushing energy companies directly, but applying pressure on the banks that extend financing to them.

Environmental campaigners, however, say that engagement alone is not enough and have called for divestment— a strategy where climate-conscious investors pull their money out of environmentally subpar companies. But stellar dividends mean they have a delicate balancing act.

"The most effective thing that you can do is to voice concern of the companies that you own before you walk for the [exit]," says Aviva's Mr Waygood. But even he acknowledges there were companies that the market would inevitably find unviable, and where divestment was the only option. He identifies Coal India, China Resources Power, China Coal Energy and Alliances Resources Power as among those that "can't transition, or at least won't".

According to lobby group Go Fossil Fuel, about 1,000 investors with $7.18tn in assets have committed to divest from at least some type of fossil fuels. This includes PKA, the Danish pension fund, which has pulled its investments in several oil producers as well as coal companies. The Church of England dumped coal and tar sands in 2015 and in a hugely symbolic move in July, it voted to sell holdings in fossil fuel companies slow to tackle global warming from 2023.

transition, says investors are the “new act” in town and have huge influence, but, he adds, they lack clarity on what constitutes success.

“Whether these oil and gas companies go under or hang on is of no interest to the planet. The only people that care are the investors,” he says. Adding that they also have little impact on state-owned energy players that produce most of the world’s oil and gas.

Investors would do more good, he believes, if they pushed governments into creating policy that would bring certainty about how energy companies should operate.

Oil investors in numbers

Oil industry leaders attend the conference on energy and climate hosted by Pope Francis in Rome this year © Vatican Media

$32tn

In assets under management held by investors in Climate Action 100+ which lobbied Shell

$4.2tn

In assets could be lost due to climate change — some estimate the cost will be much higher

42

Investor resolutions focused on climate change were filed in the 2016-17 voting season

Energy companies are slowly realising the importance of dialogue with investors and religious groups. Darren Woods, the chief executive of Exxon, was among industry figures who attended an audience with Pope Francis this year on climate change.

Some figures are already trying to show they are tackling climate change as an industry, committing to reduce methane emissions through the Oil and Gas Climate Initiative. Its members include large European and US groups, as well as state-owned Saudi Aramco, the world's biggest oil producing company.

But some in the industry, including Bob Dudley, the BP chief executive, have been outspoken about the risks associated with meeting investor demands for change, saying that forcing companies to predict an uncertain future using simple "assumptions" would almost certainly be wrong and, possibly, leave them open to legal action. He also warned that insufficient spending into new oil and gas production could have "far-reaching" consequences for energy security across the world.

Many investors still need to be persuaded of their power to dictate change. But a growing number believe it is important to convince energy companies, particularly those that are state-owned, to set meaningful climate-related goals.

"There is no question that investors are helping to move companies," says Mindy Lubber, chief executive of investor group Ceres. Yet Ms Lubber admits the strongest resistance is coming from the sector facing the steepest challenge. As investors in energy companies "you are largely saying [to them], what you are making is no longer a product that this society can afford", she says.

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