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## **World's biggest investors step up action to protect millions of pensions from climate risk**

**Report on institutions worth \$38 trillion finds growth in low carbon investment and support for climate resolutions but little progress on stranded asset risk**

Climate change is rapidly moving up the agenda for the world's biggest investors as pension funds and insurers recognise the need for action to protect the savings and financial security of hundreds of millions of people, reveals the annual benchmark report on the industry from the Asset Owners Disclosure Project (AODP).

A fifth (97) of the world's 500 biggest investors with \$US9.4 trillion in funds are taking tangible action to mitigate climate change risk and last year saw a big rise in support for shareholder resolutions and low carbon investment, according to the fourth *Global Climate 500 Index*. Another 157 worth \$14 trillion are taking the first steps.

But very few investors are acting on warnings from Mark Carney, Governor of the Bank of England and chairman of the international Financial Stability Board, that climate action could leave fossil fuel and other high-carbon investments as worthless stranded assets, and 246 investors with \$14.3 trillion in funds are ignoring climate risk completely.

AODP CEO Julian Poulter said: "Climate change risk is now a mainstream issue for institutional investors and last year has seen many significantly step up their action to manage this. However, only a handful are protecting their portfolios from the very real danger of stranded assets, and it is shocking that nearly half the world's biggest investors are doing nothing at all to mitigate climate risk. Pensions funds and insurers that ignore climate change are gambling with the savings and financial security of hundreds of millions of people around the world and risking another financial crisis."

The independent non-profit AODP rates the world's 500 biggest investors - pension funds, insurers, sovereign wealth funds, foundations and endowments with \$38 trillion of assets under management (AUM) - on their success at managing climate risk within their portfolios, based on direct disclosures and publicly available information. They are graded from AAA to D while those taking no action are rated X.

Investors that recognise climate risk are taking significantly more action than last year, the report reveals. The leaders, rated A to AAA, have grown 29% from 24 to 31 investors with \$2.7 trillion AUM. On average, these 12



AAA-rated institutions have outperformed the benchmark return over five years, demonstrating that climate risk can be managed without sacrificing returns.

But the biggest increase has been in asset owners still developing their climate risk strategy, with a 52% rise in those rated C to CCC, from 27 to 41 with \$3.4 trillion AUM. There are now 97 investors rated C or above with \$9.4 trillion AUM, up from 77, while the D group taking least action has shrunk from 191 to 157 with \$14 trillion AUM. However, the number of X-rated laggards has grown from 232 in 2015 to 246 with \$14.3 trillion AUM.

### **Three key strategies for managing climate risk**

The Global Climate 500 Index is the world standard for assessing the success of asset owners at managing climate risk. It evaluates them on three approaches: tackling risks associated with high-carbon assets in their portfolios; engaging with the companies they own and with stakeholders throughout the investment chain to reduce climate risk; and investing in low-carbon assets. This year AODP has raised the bar, requiring evidence of tangible action and no longer scores purely for transparency or commitments.

#### **Risk management**

- 10% of asset owners and 74% of the leaders group (rated A to AAA) are measuring carbon in their portfolios, up from 7% and 67% last year. However, only 2% of asset owners have declared a target for reducing portfolio carbon next year.
- Just 5% of asset owners and only half the leaders disclose that they are measuring the impact that stranded assets may have on their investments – although this is an improvement on the 3% last year. This indicates that more complex risk management activities are often the last to be implemented.

#### **Engagement**

- 13% of asset owners and 97% of leaders now have staff dedicated to integrating climate risk management into the investment process, up from 9% and 79% last year.
- Support for shareholder resolutions on climate change has grown strongly, with 12% of investors voting in favour of at least one, compared with 7% last year. Among leaders support grew from 67% to 84%.

#### **Low Carbon Investment**

- Low carbon investment grew 63% from \$85 billion to \$138 billion. General lack of disclosure and difficulties defining low carbon assets mean this is likely to be an underestimate but funds are working to define this better for next year.



- The Netherlands is the most active country by far with \$39 billion invested in low carbon, 3.4% of AUM. The UK's Environment Agency Pension Fund has 26% of its portfolio in low carbon assets, the highest in the index.

Mark Carney, Governor of the Bank of England and chairman of the international Financial Stability Board, has warned that climate change action could make huge reserves of coal, oil and gas unburnable stranded assets threatening investors with huge losses and destabilising markets.<sup>1</sup> The FSB has set up a task force to recommend how Asset Owners the companies they invest in and other financial intermediaries should report the potential impact of climate change on their bottom line.

Christiana Figueres, Executive Secretary of the UN Framework Convention on Climate Change (UNFCCC), said: "The Paris Agreement has set out the path, direction and ultimate destination for the global economy. Increasing numbers of asset owners understand this and more are coming to that realization. I would encourage all of them to pick up the pace and ramp up their ambition in respect to a low carbon transition—it is the key to reducing risk and securing the health of their portfolios now and over the long term".

### **Investors and countries leading on climate risk management**

The \$4 billion Environment Agency Pension Fund tops the Global Climate 500 Index closely followed by Australia's \$7.1 billion Local Government Super, each coming top or second in all three categories and proving that size is no barrier to managing climate risk.

Other leaders include giant institutions which have been active in campaigning for climate action, \$391 billion Dutch pension fund ABP and the \$301 billion California Public Employees Retirement System, both rated AAA, and UK insurer Aviva with \$445 billion of assets, rated A. Frances's £180 billion Caisse des Dépôts has jumped from a CC rating to a AA, while and \$51 billion Swedish pension fund AMF and the UK's \$26 billion Greater Manchester Pension Fund are both up from D to A.

Scandinavian asset owners are taking the most action to manage climate risk. Sweden tops the Country Index, followed by Norway, and Denmark comes fifth. France, where the Paris Climate Summit brought climate risk into sharp focus, takes fourth place with three funds in the top 20 for the first time.

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<sup>1</sup> Financial Times: [Mark Carney warns investors face 'huge' climate change losses](#), 29-9-15



Pension funds account for nearly two thirds of the index (322) and insurers nearly a quarter (118). However, only four of the seven countries that dominate the global pensions market <sup>2</sup> make the top ten in the Country Index. Australia (3rd), the Netherlands (6th), UK (7th) and the US (9th), which are all well represented in the leadership group of institutions rated A to AAA. Canada ranks 11th, Switzerland 14th and Japan 25th.

Japan's Government Pension Investment Fund, the world's largest asset owner worth \$1.2 trillion, is rated D, up from X last year. It has committed to taking environmental, social and governance factors into account in its investments and has started asking its asset managers what they are doing to promote better behaviour in the companies it owns.

Julian Poulter said: "Asset owners in Japan and Switzerland have shown no leadership on climate change and are putting their members and clients at risk. It is the countries with more transparent financial systems where asset owners are more accountable to their members where we are seeing most action.

"This makes it significant that GPIF, the world's largest asset owner, has taken the first step on the journey to protecting millions of Japanese pension holders from the risks of climate change. We look forward to further action and we hope it will send a signal to a market which has been ignoring the issue for far too long."

The World Bank has been a leading voice warning about climate risk and high carbon investment, but the report reveals that its \$17 billion Group Staff Retirement fund is not translating this into strong action. It is rated D, up from X in 2015. By contrast the UN's \$52 billion Joint Staff Pension Fund is up from A to AA.

The 10 biggest X-rated funds, worth a total \$4.9 trillion, include sovereign wealth funds in the oil states of Abu Dhabi, Kuwait, Saudi Arabia and Qatar as well as China and Hong Kong, insurance companies China Life, Japan Post and Zenkyoren of Japan, and the US pension fund, Thrift Savings Plan.

ENDS

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#### Notes to editors

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<sup>2</sup> Willis Towers Watson: Global Pensions Assets Study, 2016. Seven countries account for nearly \$33trn of pensions investment: The US is by far the biggest with \$21.8trn, followed by: UK, \$3.2trn; Japan, \$2.7trn; Canada, \$1.5trn; Australia, 1.5trn; Netherlands, \$1.4trn; Switzerland, \$0.8trn. <sup>2</sup>



The **Asset Owners Disclosure Project** is an independent not-for-profit global organisation whose objective is to protect retirement savings and other long term investments from the risks posed by climate change by improving disclosure and industry best practice. [www.aodproject.net](http://www.aodproject.net)

### Breakdown of climate risk ratings for world's 500 biggest assets owners

CATEGORY	RATINGS BANDS	ASSET OWNERS 2016	AUM (\$BILLIONS)	ASSET OWNERS 2015
LEADERS	AAA	12	1,141	9
	AA	8	641	7
	A	11	896	8
CHALLENGERS	BBB	15	2,280	9
	BB	4	17	9
	B	6	1,089	8
LEARNERS	CCC	8	570	9
	CC	17	1,092	9
	C	16	1,695	9
BYSTANDERS	D	157	13,969	191
LAGGARDS	X	246	14,348	232
TOTAL		<b>500</b>	<b>37,737</b>	<b>500</b>

### Top 12 asset owners

	Asset Owner	2016 Rating	2015 Rating	AUM US\$Mln	Type	Country
1	The Environment Agency Pension Fund (EAPF)	AAA	AAA	3,956	Pension fund	UK
2	Local Government Super (LGS)	AAA	AAA	7,121	Pension fund	Australia
3	Fjärde AP-Fonden (AP4)	AAA	AAA	36,718	Pension fund	Sweden
4	Stichting Pensioenfonds ABP	AAA	AAA	391,400	Pension fund	Netherlands
5	New York State Common Retirement Fund (NYSCRF)	AAA	AAA	184,500	Pension fund	US
6	Pensionskassernes Administration A/S (PKA)	AAA	A	31,315	Pension fund	Denmark
7	AustralianSuper	AAA	AAA	71,575	Pension fund	Australia
8	Andra AP-Fonden (AP2)	AAA	AA	37,500	Pension fund	Sweden
9	California Public Employees Retirement System (CalPERS)	AAA	AAA	301,863	Pension fund	US
10=	Etablissement de retraite additionnelle de la Fonction Publique (ERAFP)	AAA	A	25,501	Pension fund	France
10=	Church Commissioners for England	AAA	N/A	10,443	Endowment	UK
12	First State Super	AAA	AA	39,349	Pension fund	Australia

### Top 10 countries (ranked by average score)

Rank	Country	% of asset owners		Proportion of AUM		# asset owners	2015 %	
		Leaders	Laggards	Leaders	Laggards		Leaders	Laggards
1	Sweden	30%	0%	33%	0%	10	20%	0%
2	Norway	25%	0%	6%	0%	4	50%	0%
3	Australia*	18%	3%	16%	9%	33	18%	11%
4	France	21%	29%	13%	8%	14	14%	29%
5	Denmark	10%	20%	10%	19%	10	10%	20%
6	Netherlands*	17%	17%	51%	6%	18	11%	11%
7	UK*	14%	23%	14%	8%	43	6%	34%
8	Brazil	0%	40%	0%	30%	5	0%	0%
9	USA*	5%	67%	10%	46%	174	4%	53%
10	China	0%	63%	0%	59%	8	0%	100%
11	Canada*	0%	44%	0%	21%	27	0%	34%
14	Switzerland*	0%	33%	0%	16%	21	0%	60%
25	Japan*	0%	58%	0%	37%	26	0%	45%

\* P7 countries