Ansvarlig Fremtid

AnsvarligFremtid's 4 recommendations for pension fund investment policy to ensure responsible and profitable pension saving in a low carbon future

Published 19th November 2015 for a debate at Copenhagen Business School on the role of the financial sector in the green transition.

Recommendation 1:

Pension funds should establish an investment policy that ensures that investment is only made in fossil fuel companies that have a business plan aligned with a (no more than) 2° scenario.

Argument:

In order to reach the politically determined goal of limiting global warming to no more than 2° Celsius it is prerequisite that all investments support such a development. Investments that are not consistent with this goal are unethical and have high risk.

Implementation:

AnsvarligFremtid recommends that the investment policy includes the tools that have been developed by Carbon Tracker Initiative (1) and by the Institutional Investors Group on Climate Change (2); they have developed these for investment strategies that are consistent with the 2 degree goal. Recent research (3) has documented that such an investment strategy will significantly reduce investment in coal and rule out investment in companies extract oil from tar sands, the Arctic and in deep sea. AnsvarligFremtid's financial argument has been published in a peer reviewed article in the Danish Financial Analyst Journal, Finans/Invest (4).

Status:

No Danish pension fund has implemented such an investment strategy, or decided to do so, as of yet. There are however foreign pension funds and banks that have decided to adopt such a policy. (5,6).

Select references:

(1) http://www.carbontracker.org/wp-content/uploads/2015/04/Blueprint-Carbon-Tracker-230415.pdf
(2) http://www.iigcc.org/publications/publication/climate-change-investment-solutions-a-guide-for-asset-owners
(3) http://www.nature.com/nature/journal/v517/n7533/full/nature14016.html
(4) "Bør der Regnes på Strandede aktiver" *Finans/Invest* 5/2015
(5) Environment Agency Pension Fund's 2 degree decision
(6) http://www.afr.com/business/mining/commonwealth-bank-to-reveal-2-degree-global-warming-plans-20151104-gkqtmi

Recommendation 2:

Pension funds should disclose their exposure to investments in the coal, oil and gas industry, as well as publish their strategy for mitigating climate risks.

Argument:

Mark Carney, governor of the Bank of England, who has supervision over the City of London, has at several occasions addressed that there are three types of climate risks that must be addressed to maintain stability of the financial system. *Physical risks* are the losses that will occur in full portfolios, e.g. property and insurance companies, as a result of climate change. *Litigation risks* are risks associated with the responsibility for contributing to climate change. *Transition risks* (also known as fossil fuel risk or carbon asset risk) are the risks of loss on stranded fossil fuels assets; the value of these assets will be impaired when left in the ground (7). Pension funds are by law required to act in the best interest of their beneficiaries, including ensuring highest possible risk adjusted returns (fiduciary duty). Customers and society can thus legitimately expect that pension funds publicise their exposure to fossil energy. This is especially relevant in a period in which investment in fossil energy has led to substantial losses (8), possibly because transition risks have started to materialise. Looking 3-5 years ahead all three climate risks should be addressed in the companies' own risk and solvency assessments.

Implementation:

Disclosure of exposure should be based on investments in the 200 largest listed coal, oil, and gas companies as defined in the Carbon Underground 200 list (9). The exposure should be expressed both in absolute terms (DKK) and as the share of total stock investment (%). Alternative ways to disclose exposure to fossil energy could be to sign up for the Asset Owners Disclosure Project http://aodproject.net/ or the Montreal Pledge http://montrealpledge.org/. The disclosure of exposure and risk management should be published on the pension funds' websites

Status:

No Danish pension fund publishes separate financial information on investments in fossil energy on their website. Neither do they explicitly mention transition risks in their own risk and solvency assessments. One pension fund (PKA) participates in AODP and a few have announced that they are considering joining the Montreal Pledge. In their report "Ansvar for fremtiden" WWF-Denmark has calculated the exposure of selected Danish pension fund to investment in high risk oil companies (10).

Select references:

(7) www.ft.com/intl/cms/s/0/6a341a94-70d3-11e5-9b9e-690fdae72044.html

(8) http://gofossilfree.org/usa/press-release/california-pension-funds-lost-over-5-billion-from-fossil-fuel-holdings/

(9) http://fossilfreeindexes.com/research/the-carbon-underground/

(10) http://awsassets.wwfdk.panda.org/downloads/wwf___ansvar_for_fremtiden___final.pdf

Recommedation 3:

Pension funds should publish their record of proxy voting at the Annual General Meetings of some of the world's largest coal, oil and gas companies, as well as provide details on their engagement approach with these companies.

Photo: SPÖ/Johannes Zinner, CC BY-SA 2.0

Argument:

With pension funds publicly claiming that they –*"through demanding engagement and increased information"* relating to fossil energy companies – push these companies towards greener corporate behavior , it is a legitimate ask that pension customers and society are able to demand information on what exactly this engagement implies, including voting at the fossil energy companies' AGMs. In 2015 it was the investor coalition "Aiming for A", which at BP's and Shell's annual general meeting (AGM) co-filed resolutions that mandated the companies to publish how their business model will be competitive with a 2 degree climate scenario. It is in the interest of the public to know whether Danish pension funds actively contributed to these resolutions and what their proxy voting record has been at the AGMs of fossil fuel companies. Ideally the pension funds should publish their voting before the AGMs as the Norwegian Pension fund does, so it can contribute to maximising pressure on other investors to also add pressure on fossil companies to adjust their business models to the 2 degree goal.

Status:

Only a few Danish pension funds including Unipension (11) and PBU (12) publish this kind of information on their web site. PKA has announced that they will start publishing this from 2016. No Danish pension fund has published information on whether they have contributed to the co-filing of resolutions at the AGMs of fossil fuel companies.

Select references:

(11) http://www.unipensioninvest.dk/da/Investering/Ansvarlige-investeringer/Boersnoterede-selskaber

(12) https://pbu.dk/om-os/sadan-investerer-vi/social-ansvarlighed/investorsamarbejde/

Recommendation 4:

Pension funds should only invest in fossil companies that do not fund lobbyism or marketing that undermines an ambitious climate policy

Argument:

To achieve the goal of maximum 2 degree global warming we speed up the political process that can make this possible. Therefore it must be a clear prerequisite that investments are only made in companies that do not work against the green transition. The companies should not undertake marketing that works against the green transition, e. g. by supporting think tanks that question whether anthropogenic global warming is real or whether burning fossil fuels leads to global warming. Lobby assocations are problematic if they question whether anthropogenic global warming is a significant threat and whether we as a society should react to this threat by reducing greenhouse gas emissions as fast as possible.

Many fossil companies choose to portray themselves as supporters of the green transition in their own communications, while completely opposite political statements come from the industry and lobby organisations, many of which they are paying members. Examples of such networks include BusinessEurope, The European Chemical Industry Council, FuelsEurope, the European Association of Metals, and the International Association of Oil and Gas Producers (13,14). Therefore pension funds should to a much larger extent exert pressure on fossil companies to be much clearer in their disclosure of involvement in lobby organisations, and encourage them to end membership and support of problematic think tanks as well as industry and lobby organisations.

Implementation:

Pension funds should publish information on how they ensure that fossil companies they invest in do not support controversial think tanks and industry and lobby organisations, as well as on how they exert pressure companies to end their support to these groups.

Status:

There is no Danish pension fund that can demonstrate how they are enforcing this kind of policy.

Select references:

(13) http://www.euractiv.com/sections/energy/investors-demand-energy-giants-quit-anti-climate-eu-lobby-groups-317249

(14) http://www.theguardian.com/environment/2015/sep/21/bp-tops-the-list-of-firms-obstructing-climate-action-in-europe