

# Introduction

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For financial services companies to regain the trust of investors, policymakers and the public, they need to show themselves capable of identifying and managing not only those issues which precipitated the current financial crisis, but also those which could reasonably be expected to cause the next one.

Climate change is an obvious potential cause of a future financial crisis that could dwarf current problems: there are now few serious commentators who do not expect climate change to create serious physical and regulatory impacts on businesses, but it will also create political, social, technological and market challenges which will affect companies and their investors. These changes may be difficult to quantify, but their potential significance means that they should nevertheless be actively anticipated.

The consequences of climate change will increasingly be felt in the short term: the UN climate change conference in December 2009 is expected to produce new initiatives to reduce emissions with impacts upon companies and their investors. However, investors (especially those with longer-term investment objectives, such as pension funds) need to take action now to ensure that assets are “future-proofed”: companies that convert to lower emissions models in a proactive, timely and planned manner will find the transition easier and more cost-efficient than those who are forced to change hurriedly and reactively.

This report looks at fund management companies partly due to the public interest in a sector that manages the assets of pension schemes, charitable foundations and individuals. Fund management companies are also of interest because as huge shareholders they are in a position to either promote timely corporate anticipation of the risks and opportunities arising from climate change or to

delay progress by encouraging a corporate culture that is focused on short-term returns at the expense of longer-term financial sustainability.

This report is intended to inform investors and policymakers, by identifying the attitudes, actions and reporting of fund managers (as a group and individually) on the risks and opportunities of climate change. It is anticipated that our findings will add value to research published by others showing the exposure of companies and investors to climate change risks<sup>3</sup>.

We hope that the research will also be of use to fund managers themselves, who, as the financial effects of climate change become increasingly apparent, can expect increased demand from clients for relevant action and reporting. Fund managers could also view the management of climate change proactively, as a means of rebuilding client and public confidence in their ability to assess and manage risks.

This report focuses more on engagement with investee companies than on buy-sell tactics (although there is also a case for the latter). Most fund managers who participated in this research have altered investment allocations in at least some companies due to climate change considerations, but this is a partial solution: excluding the sectors most obviously impacted by climate change, such as oil & gas and transport would unacceptably reduce portfolio diversification, and the consequences of climate change will flow through supplier and client chains to impact the entire economy. Engagement with companies also puts investors in a position to detect risks and opportunities early, as some participating fund managers have pointed out.

Research was carried out between May and July 2009, based on survey responses from 39 fund management companies.

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3. Examples include Mercer & Trucost “Carbon Risks in UK Equity Funds” 2009; EIRiS “Climate Change Compass: The road to Copenhagen”, 2009 and the work of the Carbon Disclosure Project ([cdproject.net](http://cdproject.net))

# Executive Summary

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## **The importance of climate change is recognised...**

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An overwhelming majority (89%) of participating fund managers recognise that climate change is an “important” or “very important” investment issue, and a large majority (66%) state that it has become more important in the last two years.

## **...but action is suppressed by short-termism and lack of client demand.**

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63% of fund managers surveyed said that the low current carbon price was the most significant barrier to the incorporation of climate change risks and opportunities into investment analysis and decision making. This creates, in the words of one surveyee, an “imbalance between the relatively short term horizons of mainstream investment analysis and the relatively long term nature of the material business impacts of climate change”<sup>4</sup>. Our findings also suggest that fund managers feel under little pressure from clients to temper short-termism (including those such as pension funds which have longer-term investment objectives): 56% of respondents cited “lack of demand from clients” as a barrier to managing climate change risks and opportunities.

## **Leaders and laggards**

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Despite the near-universal recognition of the importance of climate change, there are significant differences in the extent to which fund managers are taking action to anticipate climate change. For example, 29% of our

surveyees make use of climate change data in their analysis of “all companies where data is available”, but some (6%) use such data “in no companies” (although it is worth noting that the fund managers who responded to our survey are self-selected and therefore likely to reflect the more engaged section of the investment community). Among participants who undertake engagement, 81% ask companies for an action plan to reduce emissions (though clients and other interested parties may ask why the other 19% do not).

## **Differing views on which sectors require action to manage climate change**

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Fund managers surveyed fell into two main camps, those who take the view that “all sectors of the economy will be affected”<sup>5</sup> (and act accordingly) versus those who think that “carbon emissions are material and relevant for some sectors [...] but not for others”<sup>6</sup> (and therefore take more limited action): 39% request climate change data from companies in “all sectors” and a similar proportion (36%) request such data from companies in “a minority of sectors”.

## **Strong fund manager support for mandatory emissions reporting and reduction**

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There is a powerful consensus amongst participating fund managers on the need for greater regulation: 86% stated that they would welcome requirements on companies to report greenhouse gas emissions and 78% would welcome stock exchange listing rules requiring companies to disclose climate related risks.

4. Henderson Global Investors  
5. F&C Asset Management plc  
6. AllianceBernstein LP

In addition to support for reporting requirements, 72% would also welcome regulatory requirements on companies to reduce emissions. These results suggest that current Whitehall preferences for voluntary reporting (as discussed in our “conclusions and recommendations”) is out of step with the needs of a key part of the business community.

**Reporting by fund managers:  
the transparent, the opaque, and  
an argument for mandation.**

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Despite the strength of support among participating fund managers for mandatory emissions reporting by investee companies, fund managers’ reporting on their own management of climate change risks and opportunities is disappointing, and suggests that they do not see this as ‘key data’: 15% do not report on the issue at all, and almost half (44%) report only to “clients who request it”. Given that climate change is an important investment issue and that fund managers are not uniformly good at addressing it, there is a strong argument that clients should request such information to ensure that their interests are being promoted.

We also suggest that the mandatory reporting requirements which fund managers are keen to apply to companies should also apply to the emissions exposure of their own portfolios, due to the clear public interest in knowing whether the financial services sector is behaving in a manner both financially and environmentally sustainable.

**The submissions of participating fund managers are available online, at [fairpensions.org.uk](http://fairpensions.org.uk)**

## List of participating fund management companies

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The following companies' survey responses were used to prepare this report, and their survey responses are available online:

Aberdeen Asset Managers Ltd.	Hermes Equity Ownership Services Ltd.
AEGON Asset Management UK	JP Morgan Asset Management
AllianceBernstein LP	Jupiter Asset Management
Aviva Investors	Legal & General Investment Management Ltd.
AXA Investment Managers	Martin Currie Investment Management Ltd.
Baillie Gifford & Co.	MFS International (UK) Ltd.
Barclays Global Investors Ltd.	Morgan Stanley Investment Management Ltd.
BlackRock	Newton Investment Management Ltd.
CCLA Investment Management Ltd.	RCM (Allianz Global Investors)
The Co-operative Asset Management	Royal London Asset Management Ltd. (RLAM)
Credit Agricole Asset Management	Sarasin & Partners LLP
Credit Suisse Asset Management	Schroder Investment Management Ltd.
Doughty Hanson & Co.	Standard Life Investments Ltd.
Ecclesiastical Investment Management	State Street Global Advisors
F & C Asset Management plc	T Bailey Asset Management Ltd.
Gartmore Investment Management Ltd.	T Rowe Price
Goldman Sachs Asset Management	Threadneedle Asset Management Ltd.
Henderson Global Investors	UBS Global Asset Management Ltd.

The following companies also participated in the research, but preferred that their survey responses were not published:

Friends Provident plc  
Impax Group plc  
Insight Investment

A full list of fund management companies invited to participate appears on page 24.