

# Investors got the signal

November 2016



“Investors got the signal.” That’s been the collective response of many of the world’s largest institutional investors since the [Paris Climate Agreement](#) was adopted last December, signaling that the low-carbon future has arrived and is accelerating now that the pact has been formally entered into force under international law.

From Europe and Australia to North America and Asia, global investors managing trillions of dollars have acted decisively to shift more capital toward clean energy and low-carbon opportunities and away from riskier carbon-intensive holdings. They’ve also focused sharp attention on the importance of stronger climate disclosure frameworks and pressured the oil & gas industry, which is especially vulnerable to carbon-reducing trends that will reduce global demand for oil and other fossil fuels. Strengthening global climate policies has been another key priority.

2016 was also marked by the re-launch of the Asia Investor Group on Climate Change, which has already published the most comprehensive [analysis](#) to date of climate finance sector activity in Asia.

Below are other key 2016 highlights of actions taken by investors who are part of four major investor groups, who collaborate collectively as part of the Global Investor Coalition on Climate Change. The four investor groups are the:

- [Asia Investor Group on Climate Change](#) (AIGCC)
- [Australian/New Zealand Investor Group on Climate Change](#) (IGCC)
- [European Institutional Investor Group on Climate Change](#) (IIGCC)
- [North American Investor Network on Climate Risk](#) (INCR), a project of Ceres



Investor Network on  
**CLIMATE RISK**  
a project of **Ceres**



Investor Group on  
Climate Change

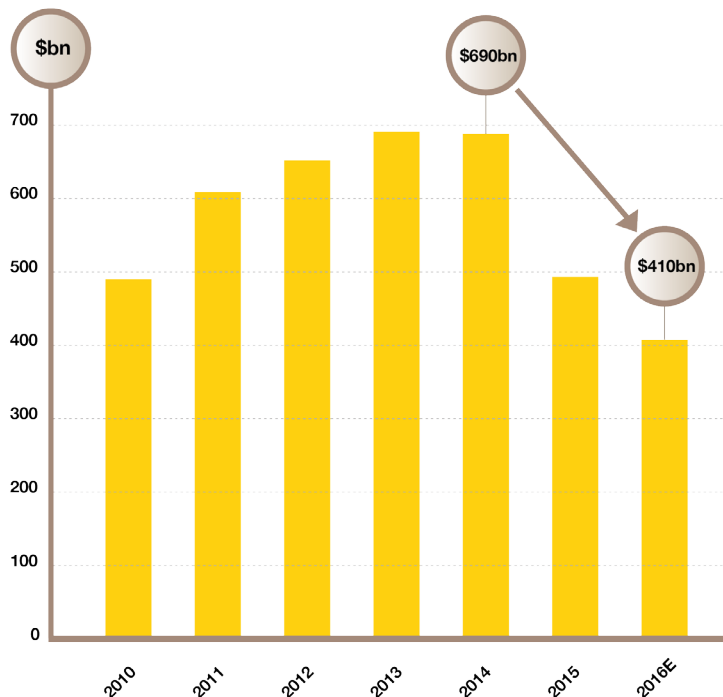




## Engaging With Companies on Carbon-Reducing Strategies

- Since Paris, investors from around the world with \$10 trillion of assets have worked together to use **shareholder resolutions** to press fossil fuel companies for better disclosure of their climate-related strategies. Resolutions of this kind were passed at the 2016 annual meetings of Anglo American, Glencore and Rio Tinto. Despite being opposed by the board, a resolution filed with [ExxonMobil](#) received record high voting support. The resolution, aligned with the Paris Agreement's goal of limiting global temperature rise to below 2°C, requested that the oil giant stress test the company's business strategy against a 2°C scenario.
- More than **250 investors, representing \$24 trillion in assets**, issued a [guide](#) outlining business risks that the automotive sector faces from climate trends. The guide also outlined investor expectations on how these companies should shift their business strategies towards a low-carbon transport system with tighter pollution emission targets, strong fuel-economy standards and exponentially more electric vehicles.
- An international coalition of asset owners with investments of over \$100 billion spent much of the year developing a public tool that will make it possible for institutional investors to track whether company business strategies are aligned with pathways associated with governments' nationally determined contributions to emissions reductions or the broader global goal to limit global temperature rise to below 2°C. The new '**Transition Pathway Initiative**' is due to be launched before the end of the year.

### Global oil & gas capital spending at lowest levels since 2007



Source: BofAML Global Research

Lower oil prices and growing investor pressure have helped drive capital expenditures on new oil & gas production to their lowest levels since 2007 - from \$690 billion in 2014 to an expected level of \$410 billion in 2016. The biggest drops were in high-cost plays such as Canada's Oil Sands.



## Capital Deployment in Low-Carbon Assets

- Investors are buying up green bonds at record levels and substantially more issuances are expected in the future given the key role of green infrastructure investment in tackling climate change. **Over \$65 billion of green bonds** were issued through early November, a 50 percent jump from \$42.2 billion in 2015. Rail transport green bonds from French and Hong Kong rail operators are among the most recent issuances.

- After getting input from INCR investors and other Ceres' [Investor Water Hub](#) members, the Climate Standards Board approved new first-ever criteria for climate-resilient **water bonds**, providing investors with a verifiable, science-based screening process to evaluate bond investments for financing sustainable water-based infrastructure projects.

- The Danish pension fund, [PKA](#), which is striving to have 10 percent of its total investments in climate-related projects, joined Kirkbi (parent company of LEGO) in a **€850 million** investment in a 258-megawatt UK offshore wind farm and invested €175 million in a biomass-powered renewable energy plant.

- [Caisse de dépôt et placement du Québec](#), a major Canadian institutional investor, set up an India office and committed to invest **\$150 million** in India renewable energy projects in next three years. The initiative is CDPQ's first emerging market clean energy investment.

- In Japan, a **\$200 million** aggregated portfolio of ground mounted and rooftop solar projects will be achieved through a soon to be announced partnership between a large Australian infrastructure group and an AIGCC member.

### 2016 Green bond issuances: \$65.4bn



Source: Climate Bonds Initiative

- The California Public Employees' Retirement System ([CalPERS](#)) acquired up to a **25 percent ownership** stake in a 550-megawatt [solar plant](#) in southern California. The power is being sold to California utility companies under long-term contracts.

- Leading Australian investment manager [QIC](#) announced an **\$800 million** investment, along with equity partner AGL Energy Limited, into AGL's \$2-3 billion Powering Australian Renewables Fund, which will own and manage about 1,000 megawatts of large-scale renewable energy infrastructure assets and projects, expected to contribute up to 10 percent towards Australia's overall renewable energy target by 2020.

- Investors will continue to provide more examples of low carbon and decarbonizing investments in the [Low Carbon Investment Registry](#).



## DeCarbonizing Investment Portfolios

- The **New York State Comptroller's Office** continues to track equity holdings in its new [\\$2 billion low-carbon](#) index fund, launched in partnership with Goldman Sachs. The fund excludes or reduces investments in high carbon emitting companies such as coal and increases investments in companies with lower emissions while maintaining comparable returns to the Russell 1000 benchmark.
- The **California State Teachers Retirement System (CalSTRS)** committed to invest \$2.5 billion in low-carbon stock indexes and boosted its allocations to sustainability investments from \$1 billion to \$3 billion.
- **UK pension provider TPT Retirement Solutions** (formerly the Pensions Trust) assessed the impact of a 2°C scenario on asset class returns and found global equity to be most exposed. Consequently, newly appointed active managers now combine long-term fundamental stock selection, ESG integration and active company engagement to cut carbon intensity. For example, one portfolio that carries 10 percent of equity exposure is avoiding carbon-intensive, high-risk sectors and is now 47 percent less carbon intensive than the benchmark.
- The Dutch civil service **pension fund ABP** tasked its asset manager [APG](#) to reduce the carbon footprint per invested euro of its listed equity portfolio (\$139 billion) by [25 percent](#) by 2020. Definitions have been refined to ensure a carbon budget is assigned to each portfolio and a system has been implemented to provide portfolio managers with the required carbon data.
- The **New Zealand Super Fund** announced a multifaceted four-part strategy of [carbon footprint reduction](#), analysis, company engagement and pursuit of new climate-resilient investment opportunities. The strategy will be applied across its entire \$30 billion portfolio.
- The **International Finance Corporation** an AIGCC member, launched the [world's first forests bond](#), a first-of-its-kind, principal protected fixed income instrument that will aim to pay a coupon in the form of verified carbon credits to bondholders or in cash.



## Engaging with Policymakers on Climate Policies

- Ahead of key **G20** meetings in China, 130 global investors collectively managing over \$13 trillion in assets [wrote to heads of state](#) urging each G20 member country to [ratify the Paris Agreement](#) this year and to double their nations' global clean energy investment by 2020. Investors also called for stronger climate disclosure mandates, development of carbon pricing and a phase out fossil fuel subsidies.
- European investors called on **EU policymakers** to use the scheduled revision of two key directives – on energy efficiency and energy performance of buildings – to set a binding goal to bring the entire [European buildings sector](#) to a nearly-zero energy standard by 2050 and to drive radical improvements in the energy efficiency of existing and future building stock through electronic 'buildings' passports.
- More robust comprehensive [climate risk disclosure](#) by business is critical to the future ability of global financial markets to pivot decisively towards a low carbon economic future. Global investors networks and their individual members engaged vigorously this year in the work of the G20's [Financial Stability Board Task Force on Climate Financial Disclosures](#) to inform its discussions and upcoming recommendations. Investor groups representing more than 300 investors submitted a [comment letter](#) calling for stronger reporting, including 2°C stress testing.
- The world's largest asset manager **BlackRock**, managing over \$5 trillion for investors, called on governments globally to set higher and more consistent [carbon pricing](#) that would make businesses pay a higher price for carbon pollution they emit.