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Investor survey: Appetite for climate investment accelerating, diversifying and driving engagement with companies

Investor appetite for climate investment opportunities continues to grow and investment activity is accelerating, even as regulatory uncertainty threatens future growth in Australia, according to a new survey of institutional investors released today by the Investor Group on Climate Change (IGCC).

Set out in a new report – *Accelerating Change* – institutional investors have provided new insights into how they are approaching low carbon and green investment opportunities and where they are active by market and asset class. The survey was undertaken over the June to July period in 2019, with investors managing more than \$1.3 trillion in assets responding to questions on their approach to climate investment.

“Despite recent political upheavals, investors in Australia and New Zealand are focused on finding low carbon opportunities and getting deals done”, said Emma Herd, Chief Executive Officer of the Investor Group on Climate Change.

“Climate-aligned investment is continuing to accelerate. Investors are actively looking for opportunities to support climate solutions and embed climate change into whole of portfolio management”.

Key findings from the survey include:

- 90% of the investors surveyed are implementing low carbon strategies.
- 50-80% of investors surveyed are undertaking or are actively considering low carbon investment across most asset classes
- More than 70% of investors have or are considering climate-aligned targets for their portfolios. Many are also doing the same across a range of asset classes.
- When faced with policy uncertainty, more than 40% of investors redirect investments to jurisdictions, sectors or markets with less uncertainty, and nearly 60% increase company engagement to manage climate-risks across their portfolios.
- Over 80% of investors are actively considering reporting under the Taskforce on Climate-related Financial Disclosures.

“The search for climate opportunity is moving into more asset classes. Diversification is a key theme, with investors allocating capital across a broad range of classes including listed equities, private equity, fixed income, infrastructure, timber, forestry and agriculture, and real estate”.

“Perceived barriers to climate investment have evolved in response to increased investor activity. Lack of investable deals at scale and policy uncertainty remain major barriers to increased investment”.

“When faced with increased policy or regulatory uncertainty in key markets, investors go offshore to find climate investment opportunities, and they ratchet up active engagement with companies they own”.

“Recent company engagement by investors with companies, such as Glencore, Rio Tinto, BHP Billiton, Shell and BP, are beginning to build the resilience to companies and the investors who own them have to growing climate-related risks. In the absence of clear policies to achieve net zero emissions in line with the Paris Agreement investors are likely to increase company engagement to reduce their exposure to an uncoordinated and ad hoc policy response.”

“The widespread adoption of the final recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) by investors is impacting the investor practice, through increased target setting and public commitments”.

The emergence of the Australian Sustainable Finance Initiative in Australia and the Sustainable Finance Forum in New Zealand, will likely accelerate this trend of mainstreaming climate change into investor practice.

The report sets out a number of recent examples of institutional investors are setting targets, developing products and reporting on the outcomes of their climate change investment strategies.

“IGCC will continue to support growing appetite among institutional investors for climate-aligned investments, and to work with our members to develop investable solutions to facilitate the transition to a resilient, net zero emissions economy,” Herd said.

For further enquiries contact:

Erwin Jackson
+61 411358939
erwin.jackson@igcc.org.au

Visit IGCC at www.igcc.org.au

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INVESTORS WELCOME SURVEY FINDINGS

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Nicole Bradford, Portfolio Head, Responsible Investment

“The research results for this year’s report highlights that institutional investors clearly understand the urgency for climate-aligned investments that shift capital towards a modern net zero emissions economy aligned with the goals of the Paris Agreement.”

Organisational media contact:

Tristan Douglas
Strategic Media Manager
tristan.douglas@cbussuper.com.au
ph: 0417736434

VicSuper

Kim Farrant, Portfolio Manager, Responsible Investment:

“The report resonates with our own experience that, having incorporated the financial risk due to climate change into our investment beliefs and committed to invest in line with a just transition towards a low carbon economy, the fund has a strong appetite for climate aligned investments that have the right risk/return profile.”

“The shift toward mainstreaming of climate aligned investment opportunities is demonstrated by our own implementation last year of a \$1 billion international equity customised carbon strategy that delivers a 70% reduction in greenhouse gas emissions against its benchmark, without compromising returns.”

Organisational media contact:

Alexis Harrison
Alexis.Harrison@vicsuper.com.au
Ph +61 3 9667 9762 | Mobile 0428 633 639

PIMCO

Olivia Albrecht, Head of ESG Business Strategy, PIMCO:

"Climate change entails an array of financial risks and also opportunities, which PIMCO's investment strategy seeks to manage and harness on behalf of our clients. We view the energy transition and global temperature rise as of utmost importance for fixed income investors, considering the ever-growing evidence of meaningful economic impacts and credit risks. We are pleased to see that Australian and New Zealand investor's appetite for climate solutions remains strong and that alignment of investment with the UN Sustainable Development Goals has emerged as a strong area of focus."

Organisational media contact:

Lucy Garth
Head of Marketing, Australia and New Zealand
Lucy.Garth@pimco.com
D: +61 2 9290 9541 M: +61 481 725 755

Impact Investment Group

Lane Crockett, Head of Renewable Infrastructure, Impact Investment Group:

“The Accelerating Change report documents, on an industry-wide scale, what we’re hearing from our own investors, and seeing in our communities: There is a demand for investments that integrate a response to climate science, contribute to climate action and find the opportunities for financial returns in the transition to a zero-carbon economy.”

“We’re proud to be one of the fund managers offering investments, like the IIG Solar Asset Fund, that meet all those goals, and we’re deeply grateful to the IGCC for helping the investment community to understand the risks and opportunities.”

Organisational media contact:

Fergus Pitt,
Head of Strategic Communications
fergus@impact-group.com.au
0476 101 542

Pathfinder Asset Management NZ

John Berry, Chief Executive officer, Pathfinder Asset Management

“There has been a massive shift in thinking from both consumers and investors around climate change and its impacts on our world. Investors want options that will reflect this and will also drive changes in corporate behaviour. We have created portfolios with a carbon intensity 64% below the market benchmark and also include investment themes like renewable energy, forestry and water. It’s a big move, but that’s what an increasing number of investors want, and what our world needs.”

Organisational media contact:

Paul Brownsey,
Chief Investment Officer
paul@path.com
+64 2144 7076