

INVESTOR STATEMENT ON CLIMATE CHANGE REPORT 2009

IIGCC

Institutional Investors Group on Climate Change

About IIGCC

The Institutional Investors Group on Climate Change (IIGCC) is a forum for collaboration on climate change for European investors. The IIGCC brings investors together to use their significant collective influence to engage in dialogues with policymakers, investors and companies to accelerate the move to a low carbon economy. The group currently has over 50 members, including some of the largest pension funds and asset managers in Europe, representing around €5 trillion.

Specifically, the IIGCC encourages:

- **Policymakers** to provide public policy solutions that facilitate the move to a low carbon economy and are consistent with long-term investment objectives
- **Investors** to take on a pro-active approach on climate change through adapting their own investment activities and processes in order to enhance and preserve long-term investment values
- **Companies** to standardise and improve disclosure on climate change and improve their performance

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Foreword

The third annual report on the actions taken by the signatories to the IIGCC Investor Statement on Climate Change shows that investors have made further progress in taking account of climate change in their practices and investment decision-making. There have been greater steps by asset owners to encourage their asset managers to integrate climate change into their investment analysis and investors are slowly broadening their engagement with companies to focus on climate performance as well as on climate disclosure. Moreover, there was unprecedented investor collaboration on public policy in the run-up to the UNFCCC climate conference in Copenhagen.

However, the report also suggests that there is scope for further action. Investors require improved corporate disclosure and climate change research. They would also benefit from additional guidance, particularly for those asset classes where climate change is not commonly integrated in investment analysis. And most importantly, strong, credible and long-term policy would go a long way towards accelerating investments that support the move to a low carbon economy.

Investors, companies and policymakers all need to take a leadership role on climate change and the IIGCC will continue to focus its efforts on all three areas. On public policy, the IIGCC will continue to engage on the international level but also refocus on regional and national policy measures. On companies, the IIGCC will encourage not only improved disclosure but also improved performance on absolute greenhouse gas emission reductions and, for investors the IIGCC will continue to provide best practice guidance.



Ole Beier Sørensen
IIGCC Chairman

Executive summary

This is the third annual report considering the actions taken on climate change by signatories to the Investor Statement on Climate Change. The Statement was launched by the Institutional Investors Group on Climate Change (IIGCC) in 2006 and, by the end of 2009 it had been signed by 26 institutional investors. The 2009 Investor Statement on Climate Change Report is based on survey responses from 14 asset owners and 12 asset managers.

Key findings

The report highlights that investors continue to make progress in building their knowledge around the investment implications of climate change and integrating climate change issues into their analyses and engagement practices across a range of asset classes. Whilst climate change is not widely considered at the strategic level, it is receiving increasing attention with respect to listed equities, property investments and slightly less so in private equity and infrastructure investments.

There is still limited focus on climate change in other asset classes, most notably fixed income and hedge funds. The level of climate change integration also varies significantly between asset managers and there is an ongoing learning process for both asset owners and asset managers.

Policy is critical to ensuring that climate change is integrated into investment decision-making. Investors are taking account of climate change where there is a price of carbon and where there are clear regulatory incentives, e.g. government support for renewable energy. However, climate change issues are largely not integrated when policy does not make the issue material, when there are uncertainties surrounding climate change policy and when the long-term nature of many physical climate change impacts means that they are outside current investment horizons.

The quality and quantity of climate change research has increased, but integration of climate change issues in investment decision-making continues to be hampered by a lack of high quality and comparable corporate disclosure and climate change research across a sufficiently wide range of sectors.

Investors have stepped up their engagement with companies on a range of climate-related issues, including disclosure. They are also widening their focus to policy commitments, including absolute greenhouse gas (GHG) emission reduction targets. There is some evidence, however, that limited resources can hamper the effectiveness of engagement.

Asset owners are becoming more proactive in asking climate change related questions of their asset managers, and integrating climate change into Requests for Proposals (RFPs). However, fewer are integrating the issue into formal requirements or formal review processes, partly due to uncertainty about how to measure progress and what benchmarks to employ. Consultants are only rarely asked for or offer advice on manager selection in relation to climate change factors.

Investor collaboration has remained a key way to engage with policymakers. IIGCC partnered with other investor networks globally to call for strong action from policymakers ahead of the UN climate change conference in Copenhagen.

Key recommendations

The findings in this report suggest that there are a number of ways in which investors can become more effective in encouraging greater integration of climate change into investment decision-making and practices and in mainstreaming the issue of climate change amongst a wider range of investors.

Given the critical role of strong, credible and long-term climate policy in driving integration of climate issues in investment decision-making, it is essential that investors step up their dialogue with policymakers. Whilst continuing to call for an international agreement, investors must now focus even more attention on policy measures at national and regional levels in order to obtain the price signals they need to take account of climate change.

A further push must also be made to improve climate change research in order to overcome some of the gaps in data provision which is hampering engagement with companies as well as investment analysis. Better information is required on climate change impacts on investments in a wider range of sectors, asset classes and on issues that are particularly difficult to integrate into investment analysis, such as adaptation.

As engagement with companies is important to increase and standardise their focus on climate change risks and opportunities, investors should continue their calls for improved disclosure. Collaborative investor initiatives can be useful in providing the tools that allow investors to analyse the level of corporate disclosure on climate change as well as the performance of companies on this issue.

While demand from asset owners is critical to driving change throughout the investment chain, asset owners are still on a learning curve to understanding how to encourage and assess the performance of their asset managers in relation to climate change. Collaborative initiatives like IIGCC should continue to provide guidance on how to encourage greater integration of climate change in investment practices and decision-making.

There is also a case to be made for encouraging asset owners to ask their consultants for advice when selecting asset managers and for encouraging consultants to integrate this into their mainstream investment manager research.

Building capacity

- Staff training, membership of collaborative initiatives and commissioning or supporting research continue to be the primary ways to build capacity on climate change.
- Over 80% of investors have specifically referenced climate change in their investment policies or belief statements.

Market demand

- Asset owners are gradually becoming more proactive in asking climate change-related questions when meeting with potential managers (almost 60% in 2009 compared to 30% in 2007) and integrating climate change into Requests for Proposals (50% in 2009 compared to 40% in 2007). However, they have been much slower in integrating these issues into Investment Manager Agreements (less than 20% in 2009).
- While three quarters of asset owners are asking climate change related questions on an informal basis in meetings with their existing managers, around half use a more formal review process.
- The proportion of asset owners asking their consultants to consider climate change when short listing fund managers fell from around 30% in 2008 to 15% in 2009.

Corporate engagement

- Engagement activities amongst asset owners increased during 2009. Around 80% of investors engage on issues such as improving disclosure on climate change, integration of climate change into product design and operations and integration of climate change issues into business strategies. Three quarters of investors now also engage with companies on setting policy commitments on climate change, including absolute GHG emission reduction targets.

Considering climate change in investment analysis

- Climate change integration into asset valuations is most frequently seen in equity and property investments (more than 85% of investors). All asset managers consider climate change issues for emerging markets equity, well ahead of asset owners (about 45%). A large number of asset managers and asset owners are integrating climate change issues into private equity (70%) and infrastructure investments (80%).
- The level of integration in other asset classes is much lower, most notably fixed income, particularly government bonds (20% of investors), and hedge funds (20%). Just over half of investors state that they integrate climate change issues into their analysis of corporate bonds.
- Regulatory changes are most frequently considered in investment analysis, in particular the carbon price established by the EU Emissions Trading Scheme (EU ETS). A large majority of investors also considered climate change opportunities, including, for example, feed-in tariffs for renewable energy.
- While physical impacts were considered by over 60% of asset owners in 2009 compared to a quarter in 2008, several investors highlighted the difficulties in integrating this issue into investment decision-making.
- There was a rise in the number of investors considering the risk of litigation to their assets (50% of asset owners in 2009 compared to only around 15% in the previous two years; and around three quarters of asset managers in 2009 compared to 55% in 2008).

Climate change considerations in property investments

- Investors continue to focus on shorter-term regulatory drivers when investing in and managing properties. Some leading investment managers are also trying to incorporate the mid- to long term effects of burgeoning investor and tenant preferences towards 'low carbon' buildings into their asset appraisal processes.
- While investors are more aware of the physical implications of climate change on their property investments, they are struggling to incorporate the implications of extreme weather conditions and requirements for adaptation into their investment analysis.
- Investors have become more active in taking account of climate change in their due diligence processes for real estate investments and in many, but not all, of their on-site climate activities. Energy efficiency continues to be considered most often in due diligence (over 90% of investors in 2009).

Investor collaboration and public policy engagement

- Investors continued to engage with policymakers on a wide range of issues, in particular support for an emissions trading scheme, support for renewable energy policy, low carbon technologies and energy efficiency.
- The largest group ever of global investors collaborated through the IIGCC/INCR/IGCC/UNEP FI Statement to call for strong action from international policymakers ahead of the climate conference in Copenhagen.
- All asset owners stated that they engaged on climate change issues with policymakers through their membership of the IIGCC during 2009.

1 Introduction

The IIGCC Investor Statement on Climate Change (see Appendix 1) encourages investors – both asset owners and asset managers – to take a more pro-active stance on climate change. It sets out the actions that investors can take in their own investment processes and in their engagement with companies, policymakers, other actors in the investment community and wider stakeholders. Signatories to the Statement commit to reporting annually on the actions they have taken on climate change.

By the end of 2009, the Statement had been signed by 26 investors, 14 asset owners and 12 asset managers, representing around €3.6 trillion. This is the third annual report and it analyses the actions signatories have taken on climate change during calendar year 2009.

Methodology

The methodology for this project was divided into three distinct stages:

1. Survey
2. Verification of data
3. Analysis of data

IIGCC commissioned Mercer to undertake and analyse two on-line surveys, one for asset owners (including those with internal asset managers) and one for asset managers. The surveys were based on the questions used in the 2007 and 2008 questionnaires in order to allow for year-on-year comparison of results where possible, although some improvements were made in light of the previous years' responses.

Mercer were also asked to verify the data provided through telephone calls with the signatories to the Statement. Each signatory was also asked a set of broader questions along major themes that Mercer and IIGCC had identified previously. The report considers the results of both the surveys and the interviews¹.

The report analyses how investors are building their knowledge of climate change and its implications for their investments and considers how they are taking account of climate change in their investment decision-making and engagement activities with assets. It also considers how investors are individually and collaboratively encouraging policymakers to provide a policy framework that is supportive of long-term investment decision-making and the move to a low carbon economy.

The report highlights trends in investors' activities – both positive and negative- and highlights best practice. Case studies (selected by Mercer) are used to illustrate how investors are taking action on the issue. Finally, the report considers what factors will continue to support the integration of climate change issues into investment decision-making and how investors and other stakeholders can better support the move to a low carbon economy.

¹ The total number of investors considered in the different sections may vary according to whether or not it is relevant to include the different categories (asset owners with internally and/or externally managed assets and asset managers).

The remainder of this report is structured as follows:

- **Section 2** provides an overview of the initiatives taken by signatories during 2009 to enhance their in-house capacity on climate change issues.
- **Section 3** focuses on the action taken by asset owners with external managers to encourage the consideration of climate change in investment decision-making.
- **Section 4** describes how asset owners and managers investing in equities and corporate bonds engage with companies on climate change issues.
- **Section 5** provides an overview of how asset managers and the internal managers of asset owners integrate climate change into asset valuations.
- **Section 6** describes how climate change considerations are integrated into property investments.
- **Section 7** highlights public policy engagements undertaken by the signatories during 2009.
- **Section 8** provides conclusions and considers the steps that investors can take individually and collaboratively to become more effective in their response to climate change.

2 Building capacity

This section provides an overview of the initiatives taken by signatories to enhance their in-house capacity on climate change issues.

Staff training

The majority of investors undertook staff training on climate change during 2009. There was a small fall in the proportion of asset owners offering training (9 out of 14 in 2009 compared to 8 out of 11 in 2008) and a small increase in the proportion of asset managers offering training (10 out of 12 in 2009 compared to 9 out of 11 in 2008).

Research

Asset owners have demonstrated increased commitment to commissioning and supporting research during the last year (10 out of 14 in 2009 compared to 5 out of 11 during 2008).

For example, Ethos, jointly with Pictet & Cie, published the third edition of the Swiss CDP Report; the Environment Agency worked with the Institute of Chartered Accountants for England & Wales (ICAEW) to publish guidance for UK organisations on reporting environmental impacts in annual financial statements²; and USS co-authored a report on climate change adaptation³.

The number of asset managers supporting research remained largely unchanged (10 out of 12 in 2009 compared with 10 out of 11 in 2008).

Collaborative initiatives

Both asset managers and asset owners continue to be involved in a large number of collaborative initiatives. All signatories to the Investor Statement on Climate Change are IIGCC members. The other most popular initiatives amongst signatories are the Carbon Disclosure Project (CDP) and the UN Principles for Responsible Investment (UN PRI).

Box 1 Collaborative initiatives

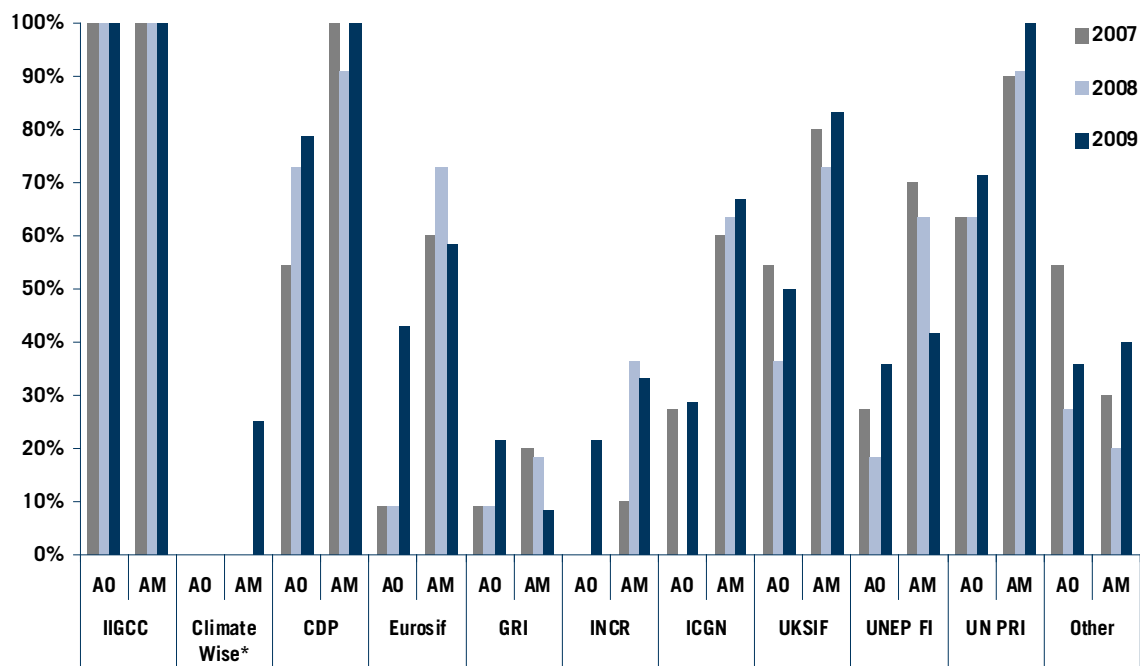
IIGCC	Institutional Investors Group on Climate Change
CDP	Carbon Disclosure Project
Eurosif	European Social Investment Foru
GRI	Global Reporting Initiative
ICGN	International Corporate Governance Network
INCR	Investor Network on Climate Risk
UKSIF	UK Social Investment Forum
UNEP FI	United Nations Environment Programme Finance Initiative
UNPRI	United Nations Principles for Responsible Investment

² Further information can be found at www.environment-agency.gov.uk/environmentalfinance

³ For further information, please see <http://www.acclimatise.uk.com/resources/investors>

Figure 1 Membership of collaborative initiatives

Proportion of investors in collaborative initiatives



* 2007 & 2008: Not asked

Referencing climate change

A large majority of asset managers and asset owners referenced climate change specifically in their investment policies or belief statements during 2009. There has been little change compared to the previous year. In 2009, 10 out of 12 asset managers referenced climate change in their investment policies or belief statements compared to 9 out of 11 in 2008. 11 out of 14 asset owners referenced climate change in their policies in 2009 compared to 8 out of 11 in 2008.

Some investors stated that they do not reference climate change specifically, but refer to environmental issues more generally in their investment policies.

Staff training, membership of collaborative initiatives and commissioning or supporting research continue to be the primary ways to build capacity on climate change.

Asset owners in particular have demonstrated increased commitment to commissioning or supporting climate change research over the last year.

A large majority of investors have specifically referenced climate change in their investment policies or belief statements.

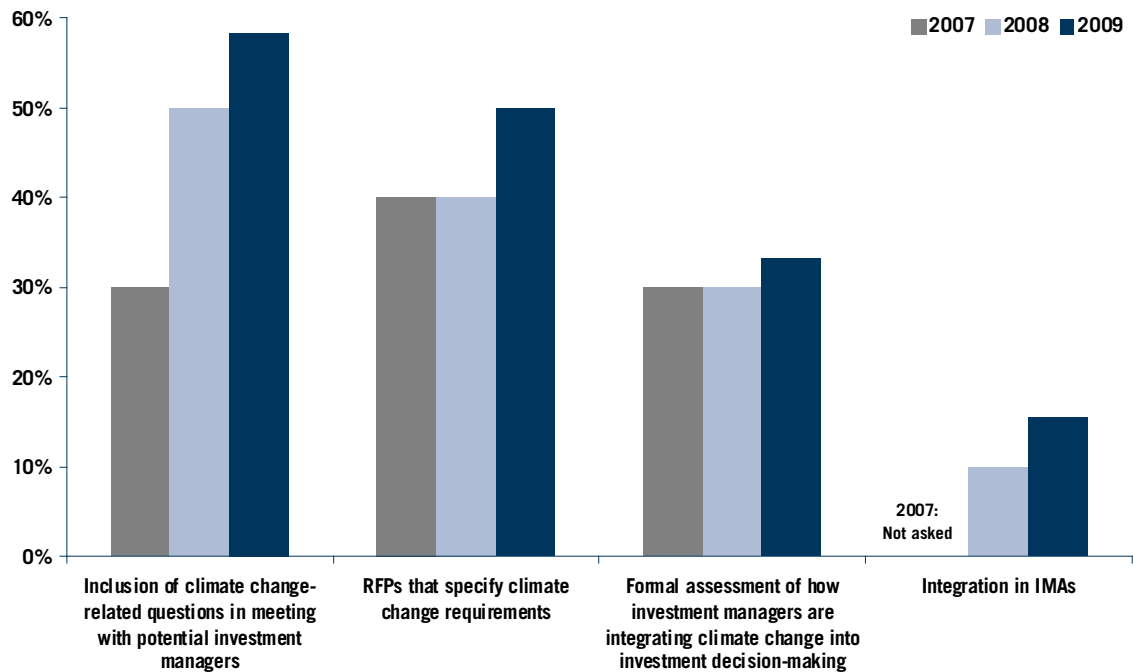
3 Market demand

Demand from asset owners is critical to encouraging fund managers to take account of climate change in their investment activities and decision-making. This section focuses on the actions taken by asset owners to encourage the consideration of climate change by their external managers.

Appointing new managers

Asset owners are becoming more proactive in asking climate change-related questions when meeting with potential managers and integrating climate change into Requests for Proposals (RFPs). However, they have been much slower in integrating these issues into Investment Manager Agreements (IMAs).

Figure 2 Considering climate change when appointing new managers
Proportion of asset owners incorporating climate change in formal processes and discussions with asset managers



- The number of asset owners including climate change-related questions in meetings with potential investment managers has risen to 7 out of 12 in 2009 from 3 out of 10 in 2007.
- However, the proportion of asset owners who undertake formal assessments of how investment managers are integrating climate change into investment decision-making has remained relatively similar compared to the results of the previous two years (4 out of 12 in 2009 compared to 3 out of 10 in 2008 and 2007).
- Specification of climate change issues within contractual agreements has increased over the last 12 months. Half of asset owners (6 out of 12) incorporate climate change requirements into RFPs (up from 4 out of 10 in 2008), with a smaller number integrating such factors within IMAs (2 out of 12 compared to 1 out of 10 in 2008).

Barriers to including climate change in contractual agreements include timing (i.e. climate change issues are most easily integrated when mandates are revisited) and possible legal costs incurred from amending and agreeing revised agreements. A lack of resources to monitor compliance was also identified as a major barrier to integration of climate change in IMAs.

Box 2 Integrating climate change in IMAs for Real Estate Managers

PGGM: Integrating climate change in IMAs for Real Estate Managers

PGGM systematically monitor the private real estate funds in which they invest. In the reporting requirements they stipulate that fund managers must report on their ESG policy and the results they achieve. With regard to climate change, they expect to be provided with information on energy, water consumption and CO₂ emissions.

Selection: Before selecting a private real estate fund, PGGM assess the extent to which the potential fund manager is able to incorporate PGGM's publicly available Responsible Investment Policy for Real Estate ("RIRE") into its own operations. In this context, it is a requirement for potential fund managers to have a clear vision and policy on ESG issues like climate change where material, and when necessary, PGGM may set further minimum requirements. These issues are included in a separate section in the due diligence and decision-making frameworks.

Monitoring: On a structural basis, funds in which PGGM invest are monitored in periodic meetings with the management of these funds. Climate change is included in the reporting requirements for fund managers and in the discussions at the periodic review meetings.

The RIRE policy is actively explained to PGGM's fund managers. A requirement of managers is the active improvement of the managed assets with regard to their climate change performance. External managers must report on climate change improvements.

The RIRE policy is not only applied to new investments as PGGM's existing portfolio will also be impacted. While respecting existing contracts with fund managers, PGGM engage with fund managers to assist with the implementation of the policy in their day-to-day work. PGGM acknowledge that this will be a gradual process.

In 2009 PGGM invested in a French real estate fund which is due to develop the first 'zero-energy' office in France. (Zero-energy means that the office generates as much energy as it consumes.) The energy will be generated by means of solar panels.

Box 3 Integrating climate change into IMAs

The Environment Agency: Investment management agreements

The Environment Agency has developed its own model investment management agreement (IMA) that incorporates climate change issues indirectly through its environmental overlay strategy and corporate governance policy. The IMA is used for all segregated funds in which the Environment Agency invests.

Key extracts from the IMA are:

On our policies

'The Manager shall observe the Client's Corporate Governance and Environmental Overlay Strategies and, in respect of investments in the United Kingdom, have due regard to the Combined Code and in respect of overseas investments have due regard to relevant recognised standards as agreed with the Client.'

On the UN PRI

'The Client encourages the Manager to join the UN PRI.'

On voting

'Prior to voting the Fund's shares the Manager (or its delegate) will discuss with the Client any resolutions containing sustainability and environmental issues at general meetings of companies whose shares are held within the Fund. The Manager shall report and justify to the Client any voting not in accordance with the Client's instructions.'

On reporting

'Details of companies whose shares were held within the Fund during the relevant quarter with which the Manager has engaged (excluding routine post results meetings) and of the outcomes achieved'.

'Details of companies whose shares were held within the Fund during the relevant quarter with which the Manager has engaged on environmental issues including details of the issue, how it arose and the financial outcomes achieved'.

Risk management (Environmental and carbon footprinting)

'The Manager agrees to participate and pay reasonable fees in an annual assessment of the environmental and carbon footprint of the Fund using a method approved by the Client'.

Source: The Environment Agency Responsible Investment Review for the Active Pension Fund (2008) http://www.environment-agency.gov.uk/static/documents/Utility/Responsible_Investment_Review.pdf

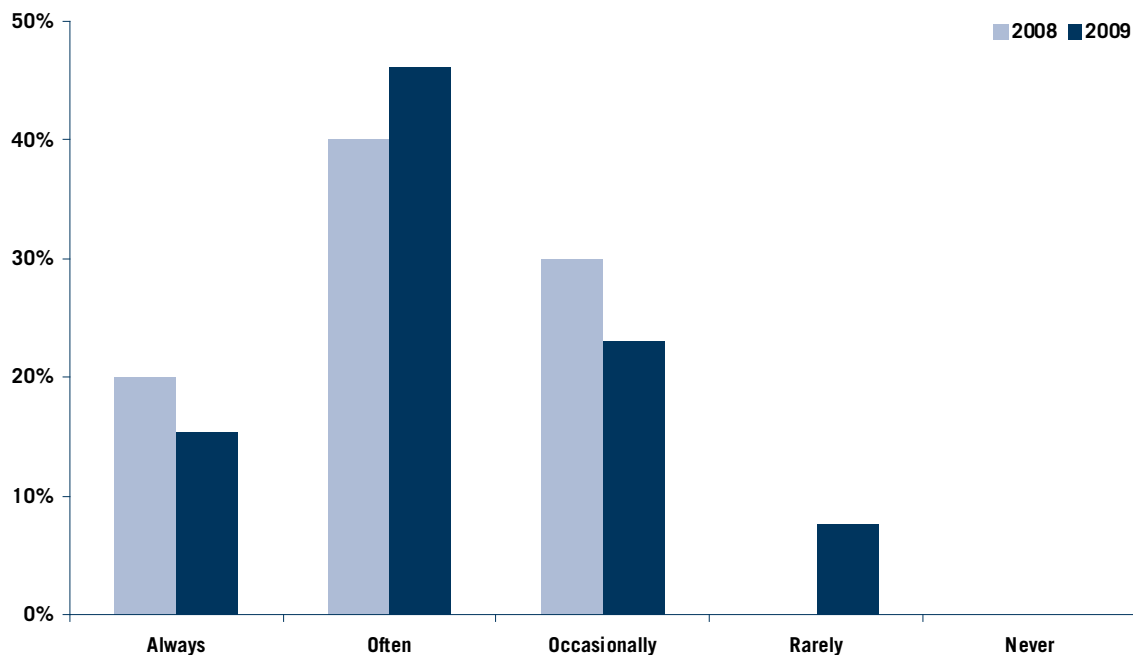
Evaluation of progress

Asset owners generally evaluate their managers informally through including climate change related questions in quarterly meetings (9 out of 12). Around half of asset owners use more formal processes such as asking managers to report on how climate change impacts are considered in investment decisions; asking them to report on their active ownership activities with respect to climate change; or using tools for benchmarking climate change integration.

However, several asset owners suggested that they were not sure how to measure climate change integration by their asset managers and which benchmark to use.

Figure 3 Evaluating investment managers

Do your investment managers meet your expectations with regard to integration of climate change issues?



A small majority of asset owners (8 out of 12) stated that their managers meet their expectations on climate change integration at least “often” (compared with 6 out of 10 in 2008). However, a few asset owners also argued that their expectations on climate change integration are “realistic” or “still relatively low”. Several asset owners stated that climate change integration varies dramatically between managers and that integration of climate change is part of a learning process for both asset owners and asset managers.

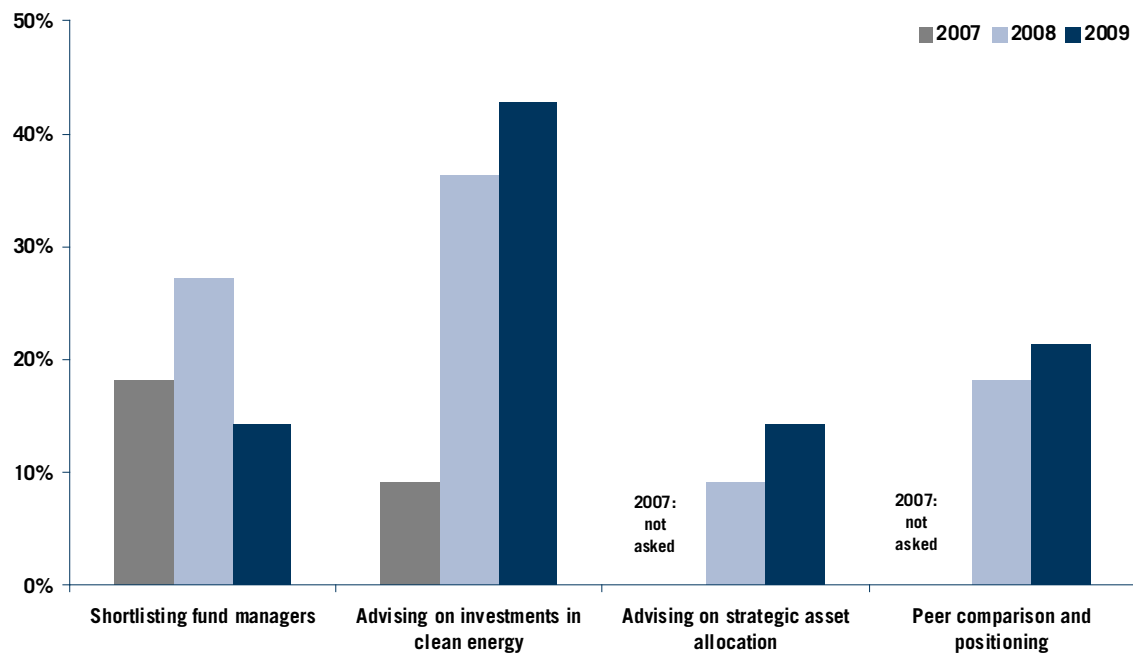
Instructing investment consultants to consider climate change

The proportion of pension funds instructing their advisors and consultants to consider climate change in the advice they provide is still relatively low, except for advice on investments in clean energy.

- There was a small increase in the proportion of asset owners asking their consultants for advice on investments in clean energy in 2009 (6 out of 13 from 4 out of 11 in 2008).
- However, the proportion of asset owners asking their consultants to consider climate change when short listing fund managers fell to an even lower level in 2009 (2 out of 13 compared to 3 out of 11 in 2008). The number of assets owners asking their consultants to consider climate change when advising on strategic asset allocation also remained low (2 out of 13 in 2009 compared to 1 out of 11 in 2008).
- The number of asset owners asking their consultants to consider climate change in peer comparison and positioning also remains relatively low at 3 out of 13 in 2009 compared to 2 out of 10 in 2008.

Figure 4 Proportion of asset owners instructing investment consultants to consider climate change

Proportion of asset owners instructing investment consultants to consider climate change in the advice that they provide when:



Asset owners are gradually becoming more proactive in asking climate change-related questions when meeting with potential managers and integrating climate change into Requests for Proposals. However, they have been much slower in integrating these issues into formal assessments or Investment Manager Agreements.

While three quarters of asset owners are asking climate change related questions on an informal basis in meetings with their existing managers, around half assess their managers as part of a more formal review process. A key barrier is uncertainty about how to measure climate change integration and the lack of a benchmark.

Three quarters of asset owners state that their managers meet their expectations on climate change, but several asset owners also note that integration of climate change is still part of a learning process for both asset owners and asset managers and climate change integration varies substantially between their external managers.

There is a lack of integration of climate change into manager selection exercises by consultants. The proportion of asset owners asking their consultants to consider climate change when short listing fund managers fell further in 2009.

4 Corporate engagement

This section provides an overview of how investors in equities and corporate bonds engage with companies on climate change, the issues they consider to be important and how they measure the effectiveness of their engagement.

Engagement by issue

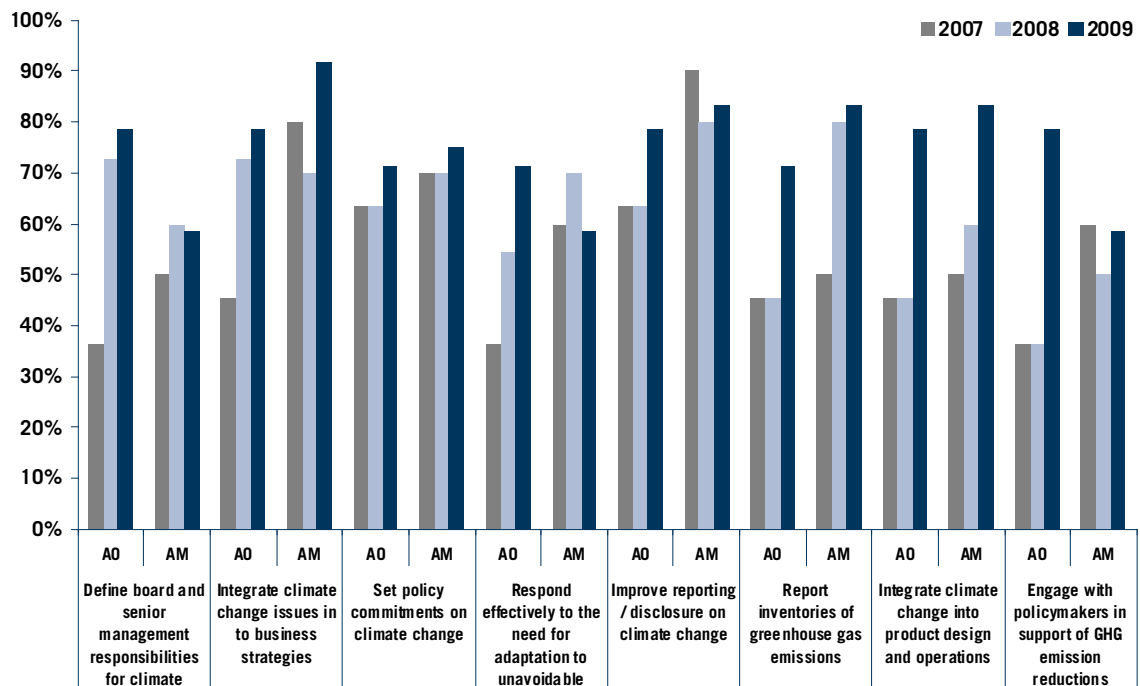
Engagement activities on climate change-related issues increased during 2009, particularly amongst asset owners. This is due to increased activity in collaborative engagement initiatives on corporate disclosure.

Almost all signatories utilised a combination direct engagement and collaborative engagement. They also exercised their voting rights on climate change. While one-on-one discussions with companies in a non-public manner was the most typical engagement approach adopted throughout Europe, the survey results show that signatories to the IIGCC Statement were also very active in collaborative engagement initiatives.

The issues most frequently addressed through engagement include:

- improving reporting/disclosure on climate change
- integration of climate change into product design and operations
- integration of climate change issues into business strategies

Figure 5 Engaging on specific climate change issues
Proportion of investors engaging with companies on the following issues:



Carbon emissions disclosure is one of the issues most frequently engaged on by investors (11 out of 14 asset owners and 10 out of 12 asset managers). Carbon-related engagements tend to involve asking companies to join the Carbon Disclosure Project (CDP) or to disclose the information as requested through the CDP.

IIGCC members have contributed to the development of a series of sector-based disclosure frameworks for electric utilities, automobile and oil and gas companies. These are integrated into the CDP's questionnaires and are aimed at encouraging investor-relevant data on climate risks and opportunities that is comparable between companies in a specific sector.

The other two issues that were most frequently addressed through engagement were the integration of climate change into product design and operations (11 out of 14 asset owners and 10 out of 12 asset managers) and integration of climate change issues into business strategies (11 out of 14 asset owners and 11 out of 12 asset managers). In particular, the attention to product design increased quite notably amongst both asset managers and asset owners during 2009.

The issue of adaptation appears to have become more important to asset owners (10 out of 14 in 2009 increasing from 6 out of 11 in 2008) although a slightly lower proportion of asset managers engaged on this issue in 2009 (7 out of 12 in 2009 compared to 7 out of 11 in 2008). Asset owners are also increasingly engaging with companies to encourage greater dialogue with policymakers in support of GHG emission reductions (11 out of 14 in 2009 compared to 4 out of 11 in 2008).

Engagements by both asset owners and asset managers with companies to set policy commitments on climate change, including setting absolute carbon emission reduction targets, showed a slight increase in 2009 (10 out of 14 asset owners and 9 out of 12 asset managers from 7 out of 11 asset owners and 7 out of 10 asset managers in 2008).

Box 4 Engaging on carbon performance

Hermes Equity Ownership Services (EOS): Engaging on carbon performance

Hermes EOS undertakes engagement activities on behalf of its clients to encourage the improvement of carbon performance of investee companies.

Based on data provided by environmental research providers including Trucost, sell-side brokers and information provided by companies, Hermes EOS targets those companies operating in sectors and countries with a high exposure to existing and planned environmental regulations.

For example, EOS engages with construction and building materials companies to assess their carbon performance and commitment and ability to reduce carbon emissions through modifying working practices and seeking alternatives to carbon-emitting forms of energy production.

EOS believes those companies who have a lower emission intensity compared to their sector peers will be best positioned in the long-term. Those companies will also tend take into account the most GHG and energy-efficient techniques and alternative production processes, and where appropriate and cost-effective, invest in renewable energy sources.

EOS intensifies engagements with those companies which have (i) a high level of direct, indirect and supply chain carbon emissions compared to the average for their sector (ii) insufficient disclosure of the material financial risks associated with climate change and how those risks and opportunities relate to long-term business strategy.

EOS monitors and analyses the behaviour of companies and the effectiveness of its own engagement processes using a milestones approach. This includes measuring carbon performance over specified time period, using tonnes of carbon emissions per unit of revenue generated as a key performance indicator.

Additionally, EOS utilises the UN PRI Clearinghouse to collaborate with other investors on joint engagements to improve the carbon performance of companies.

Measuring the effectiveness of engagement

Around 60% of investors have attempted to assess the effectiveness of their engagement activities.

Some of the tools used by signatories to measure the outcomes from engagement activities include:

- Establishing specific engagement objectives and assessing success
- Measuring the number of shareholder resolutions successfully withdrawn as a result of engagement

For both asset managers and asset owners, the most common way to assess engagement efforts is to set specific engagement objectives and assess the outcome according to these over a specified time period (4 out of 11 asset owners and 5 out of 12 asset managers).

Few investors have found ways to adequately measure the effectiveness of their engagement activities. The primary barrier identified is the difficulty in determining whether it was an investor's specific action or engagement that resulted in corporate change. In addition, many strategic engagement activities are long-term and the outcomes cannot be measured immediately.

However, the surveys suggest that there is a strong relationship between the level of resources and the quality of engagement activities. A clear and simple engagement objective appears important for successful corporate engagement. It was suggested that engagements are most effective when focused on issues that are the responsibility of senior management.

Box 5 Engaging companies on climate change

F&C Management: Engaging companies to promote better awareness of climate risks and opportunities

F&C engages companies on behalf of its clients on environmental, social and governance issues, with the aim of underpinning long-term sustainable corporate performance.

F&C's climate change engagement programme aims to encourage all companies to assess and actively manage the risks and opportunities that climate change poses to their business. Objectives of the programme are:

- **To encourage companies to measure and disclose their greenhouse gas emissions, and to put in place a strategy to manage these**
- **To demonstrate evidence that they have considered the potential risks – and opportunities – that climate change presents to their overall business strategy**
- **To play a constructive role in shaping climate change public policy**

Every year F&C records "milestones" or instances in which a company has improved its policies, procedures or practices with regards to climate change following engagement. The engagement outcomes are also rated based on the level to which F&C's specific engagement effort has been a major factor in driving corporate change, and the impact of the change on investor value.

An example of F&C's approach is its engagement with Russian oil giant Rosneft. For the last two years, F&C has spoken to the company on a range of issues including sustainability management, greenhouse gas emissions and anti-bribery and corruption. Throughout 2008 and 2009, F&C encouraged the company to reduce flaring (the burning of waste gas which is extracted alongside oil), a major contributor to global climate change and local air pollution.

In early 2009, the company announced a major new programme to reduce gas flaring in West Siberia. This project will reduce emissions, improve operational efficiency, and have the added benefit of generating valuable carbon credits which will substantially improve the economics of the project.

Engagement activities amongst asset owners have increased during 2009. The issues most frequently addressed include improving disclosure on climate change; integration of climate change into product design and operations; and integration of climate change issues into business strategies.

The issue of adaptation appears to have become more important to asset owners although slightly fewer asset managers engaged on this issue in 2009. There was a slight increase in the proportion of both asset owners and asset managers engaging with companies to set policy commitments on climate change, including absolute carbon emission reduction targets, and three quarters of investors are now engaging on this issue.

Few investors have found ways to adequately measure the effectiveness of their engagement activities, partly because it is difficult to determine whether it was an investor's specific action or engagement that resulted in corporate change.

5 Considering climate change in investment analysis

This section aims to assess how asset managers and asset owners with internally managed assets integrate climate change considerations into their investment analysis or due diligence process and how climate change is having an impact on investment decision-making.

Asset classes

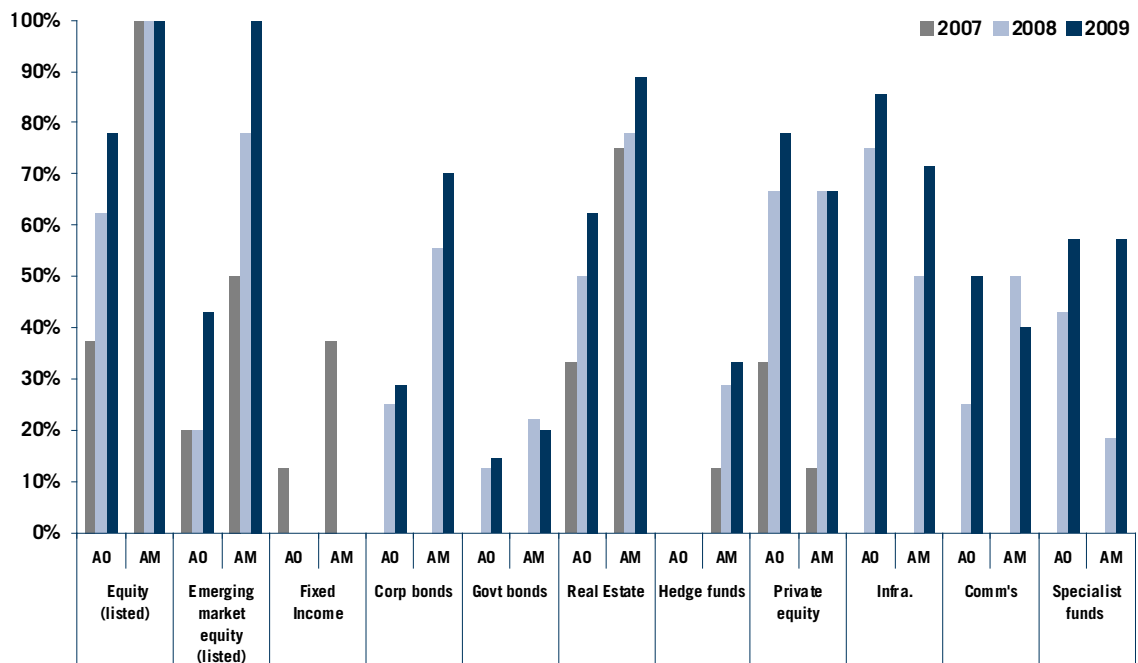
Climate change integration is most frequently seen in equity and property investments and least for government bonds and hedge funds.

The majority of investors consider climate change issues for listed equity (7 out of 9 asset owners⁴ and all asset managers) and real estate (5 out of 8 asset owners and 8 out of 9 asset managers), followed by private equity (7 out of 9 asset owners and 6 out of 9 asset managers) and infrastructure (6 out of 7 asset owners and 5 out of 7 asset managers).

An increasing number of asset managers have also started to look at climate change issues for emerging markets equity (all managers in 2009 compared to 7 out of 9 in 2008), corporate bonds (7 out of 10 in 2009, a slight increase from 5 out of 9 in 2008) and specialist funds such as climate change themed and climate opportunities funds (4 out of 7 in 2009, increasing from 2 out of 11 in 2008).

There is a lack of integration of climate change into the analysis of sovereign bonds (1 out of 7 asset owners and 2 out of 10 asset managers) and hedge funds (no asset owners and 2 out of 6 asset managers).

Figure 6 Climate change integration by asset class
Proportion of investors using research on climate change



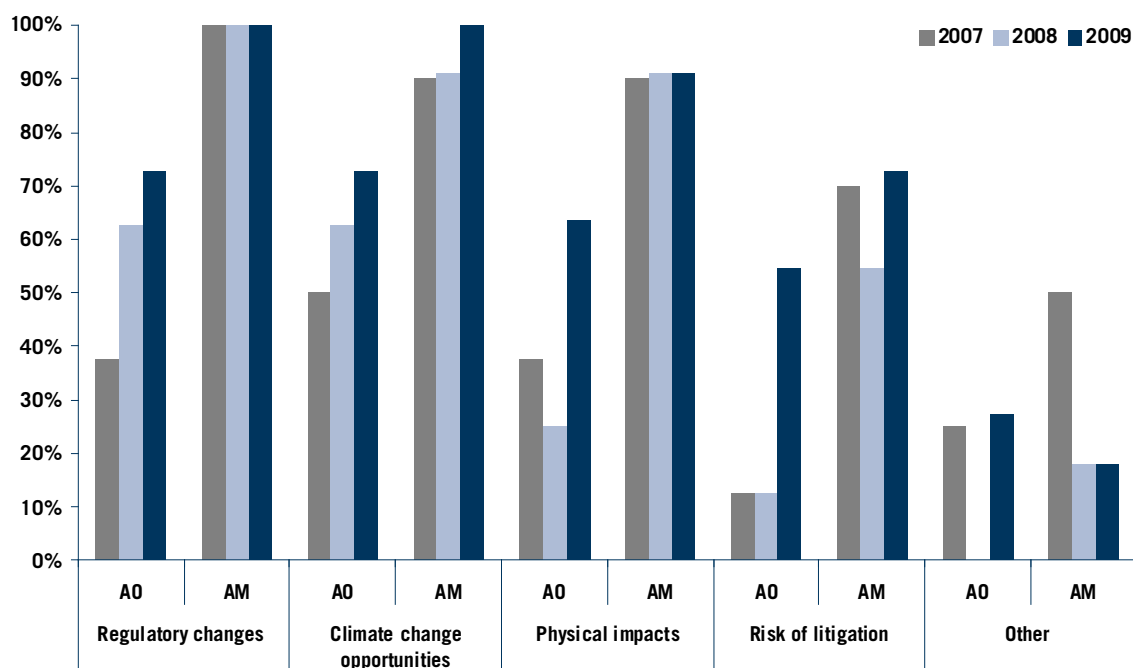
⁴ This number only includes asset owners managing listed equities internally.

Climate change issues

A large number of climate change issues received either greater attention or maintained attention in 2009 compared to the previous years, including regulatory changes, climate change opportunities, physical impacts and risk of litigation.

Figure 7 Climate change issues considered in investment decision-making

Proportion of investors taking account of the following issues:



In 2009, there was an increased focus on regulatory changes in investment analysis amongst asset owners with internal managers (8 out of 11 compared to 5 out of 8 in 2008) and all asset managers continued to take this issue into account. The European emissions trading scheme (EU ETS) remains the climate change driver that is most frequently considered in investment analysis.

Other regulatory changes considered include energy efficiency standards in sectors such as consumer goods and property.

Asset owners and asset managers also paid greater attention to climate change opportunities in their investment analysis in 2009, for example feed-in tariffs for renewable power (8 out of 11 asset owners compared to 5 out of 8 in 2008 and all asset managers compared to 10 out of 11 in 2008).

Physical impacts also rose up the agenda for asset owners in 2009 (7 out of 11 compared to 2 out of 8 in 2008) whilst they remained the same for asset managers.

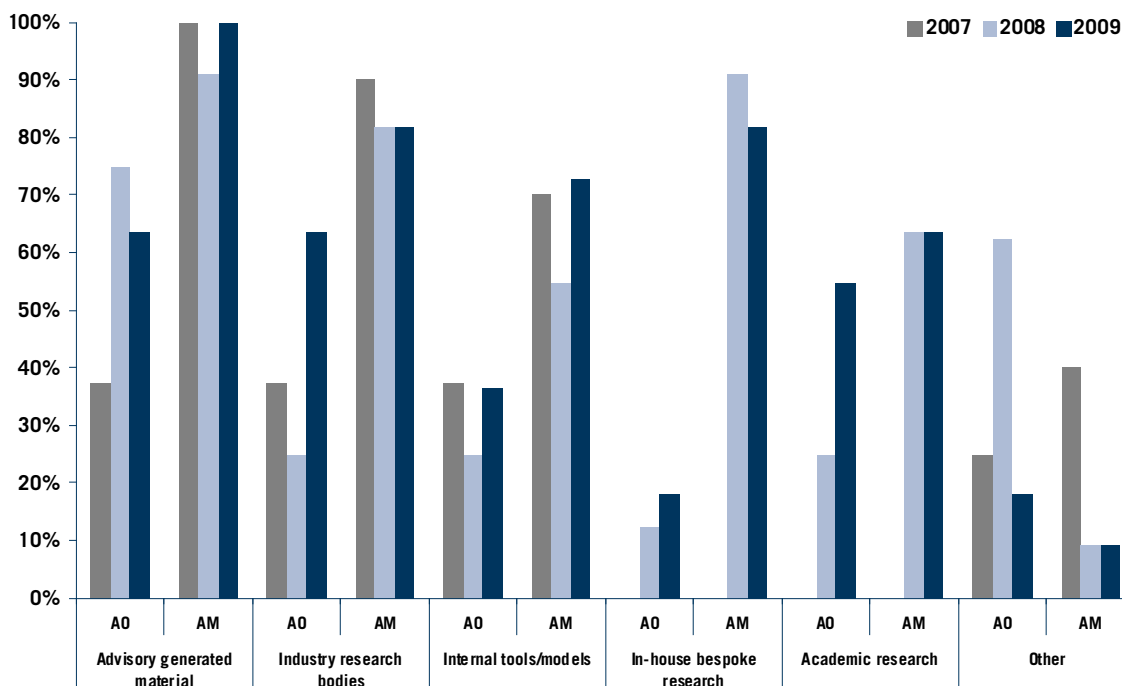
Investors stated that the physical impacts they considered included changes in precipitation patterns impacting agricultural output and extreme weather events leading to increased risk for the property sector, impacts on productive assets in the Gulf of Mexico in oil and gas sector and impacts on the re-insurance industry. However, one investor argued that the physical impacts of climate change were too long-term and could not be considered within current investment horizons. Similarly, it was highlighted that uncertainties surrounding adaptation makes this factor difficult to translate into investment decision-making.

Asset owners and asset managers are also focusing more on the risk of litigation to their assets (6 out of 11 asset owners in 2009 compared to 1 out of 8 in 2008 and 8 out of 11 asset managers compared to 6 out of 11 in 2008). A number of investors mentioned that they are now considering litigation in the oil and gas sector in relation to oil sand extraction.

Research

Asset managers are sourcing an increasing amount of research on climate change to help them understand how climate change may impact their investments. The increased demand and focus on this area appears to have contributed to improved quality and quantity of research. However, interviews suggest there are still limitations to the breadth and depth of research available to investors to measure the impact of climate change on investments.

Figure 8 Climate change research used in investment analysis
Proportion of investors using research on climate change



The majority of investors use advisory generated material (e.g. broker reports, property advisory reports) on climate change in their investment process. More than three-quarters of asset managers also use industry research bodies and in-house bespoke research.

Investors use a variety of methods for disseminating research, including via SRI/climate change analysts, internal newsletters/presentations, proprietary databases, internal websites and internal meetings to convey climate change research to staff.

Investment approaches

Most investors take a combined qualitative/quantitative approach, where quantification is most common for carbon pricing in high impact sectors.

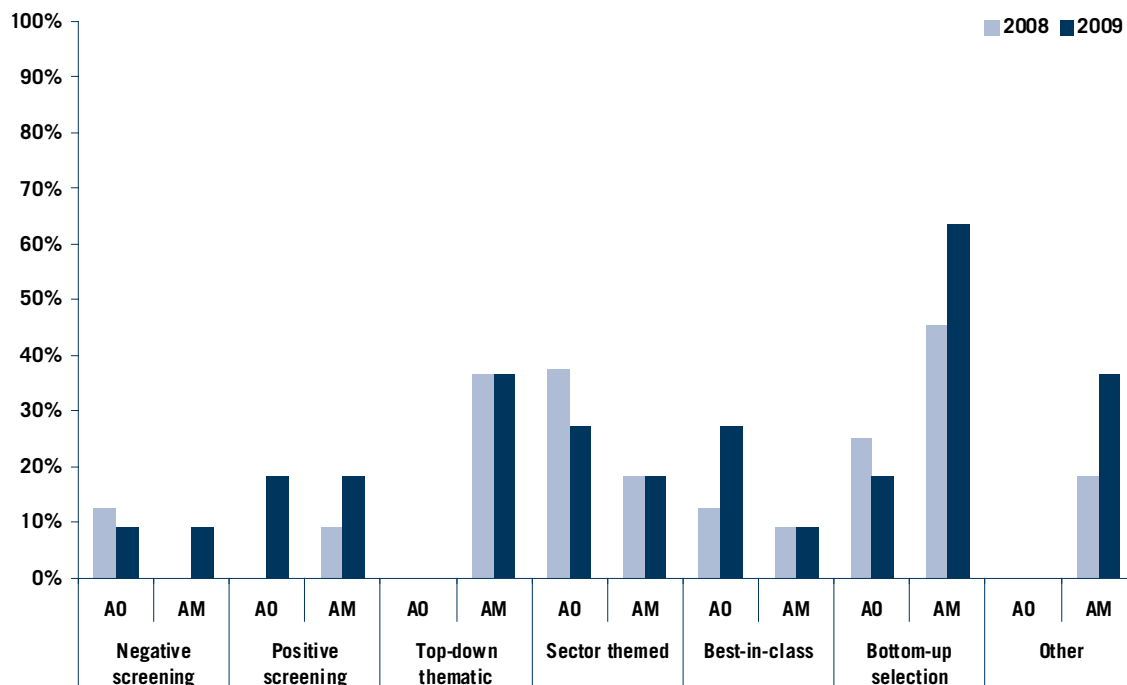
Some investors integrate carbon pricing models into their fundamental investment process. For example, carbon pricing and CO₂ emission assumptions feed into valuation models as follows:

- Cost of carbon estimates in discounted cash-flow models (DCF), in particular for energy intensive industries within the EU Emissions Trading Scheme (EU ETS).
- Scenario analysis (high and low variants) for the price of carbon. This involves forward-looking carbon price assumptions in valuation for sectors such as utilities.
- Projections of carbon savings enabled by a company's products (carbon emissions from direct operations minus carbon savings from products).

The most common investment approaches utilised by asset managers for integrating climate change research into their investment decisions is bottom-up selection (7 out of 11) and top-down thematic (4 out of 11) for individual portfolios.

The preferred investment approaches of internal managers of asset owners are sector themed and best-in-class with 3 of 11 adopting each of these approaches. 4 out of 11 asset managers stated that they have taken “other” approaches to integrate climate change in the investment process. Three of these managers stated that they incorporate climate change research into their fundamental processes on a sector or stock-specific basis.

Figure 9 Investment approaches
Proportion of investors that integrate climate change using the following approaches:



Box 6 Integrating climate change in asset valuation

Generation Investment Management: Integrating climate change in asset valuation

Generation focuses on integrating sustainability research into traditional investment processes through bottom-up fundamental analysis in its global equity strategy.

Traditional research is combined with research on sustainability themes such as climate change that have the potential to impact the long term performance of investee companies. Industry roadmaps, covering several key issues of relevance to the particular sector, are developed based upon this research. For example, within the industrials sector, roadmaps are created to cover issues such as fuel economy and emissions; utilities and infrastructure; and energy efficiency – all of which are significantly influenced by the climate change issue.

Each of these roadmaps explore the long-term drivers and trends within each sector, identifying the business and management quality characteristics that Generation believe to be of greatest importance to shareholder value in the long term. Each potential investment is assessed against these roadmaps and a quality ranking is assigned which is utilised along with the valuation model by the Portfolio Manager during portfolio construction.

Climate change in strategic decisions

It is unusual for climate change to be translated into investment decisions at the strategic level, such as what it means for long-term risks and returns across different markets, countries and asset classes. Some of the respondents argued that commitment from key individuals (e.g. board members) is crucial in taking climate change to the strategic level within an organisation. For example, commitment at the committee level has opened discussions at one asset owner who is implementing a strategic review of their investments from a climate change angle in the coming year.

Some respondents, including PGGM and the Environment Agency Pension Fund, have joined a collaborative project to consider the strategic implications of climate change for asset allocation. The project aims to identify potential investment opportunities and risks related to climate change on timescales up to 2030 and further out to 2050, looking at issues such as potential volatility and correlations among asset classes, regions, and sectors⁵.

Box 7 Considering climate change at the strategic level

ATP: Considering climate change at the strategic level

ATP takes a macro-view when considering climate change opportunities, assessing how climate change may affect their portfolio investments. Climate risk and opportunity and energy efficiency are the key assessments undertaken on individual companies – focusing in particular on companies in high emission sectors and companies otherwise potentially strongly affected. This is based on a general recognition that exposure to climate challenges and the ability to address such challenges will be key drivers for future success in the market place and hence for institutional returns.

ATP addresses climate change consideration across its entire portfolio and does not consider climate change investments as “thematic” investments. As such, allocations are made to the renewables sector as a valuable risk-diversification opportunity rather than because it fits the climate change theme. In very simple terms, the increasing allocation to renewables is undertaken because it is “good business”. Despite not classifying such strategic investment decisions as ‘thematic’, ATP is heavily invested in climate relevant activities in asset classes such as listed equity, real estate, infrastructure and forestry. Over the past 12 months alone, ATP has made allocations of €292 million in renewable energy technology and €400 million on a sustainable forestry investment programme. ATP has also committed itself to investing €1 billion in climate relevant activities in emerging economies over the coming years.

Themed investments as a stepping stone towards integration

One way to build knowledge has been to invest in, or build, a climate change themed fund where a small team of investors focus on identifying the opportunities arising from a shift towards a low carbon economy. The existence of such a specialist climate change investment team may help to transfer knowledge to the mainstream investment teams through idea generation, where climate change may otherwise be seen in a more limited way, such as a risk factor only impacting on a small portion of sectors in the economy.

⁵ See <http://www.mercer.com/summary.htm?idContent=1374855> for further information.

Barriers to climate change integration

Climate change is integrated into investment decision-making where there is a price on carbon (as in the sectors covered by the EU ETS) and where there are clear regulatory incentives, e.g. government support for renewable energy. Investors are less likely to take account of climate change issues when policy does not make the issue material, when there are uncertainties surrounding climate change policy and when the long-term nature of many physical climate change impacts means that they are outside current investment horizons.

In addition, while most signatories state that research on climate change is made available to all portfolio managers throughout their organisations, climate change integration ultimately appears to be “up to the individual portfolio manager”. This is partly due to a lack of confidence in the materiality of climate change amongst portfolio managers, but the results also suggest that there can be a lack of experience in using and interpreting data on climate change impacts.

Moreover, while the quality and quantity of available research has increased, there are still gaps in the availability of such research across sectors. As highlighted by one of the signatories, “issues such as energy efficiency and renewable energy are covered quite extensively for high-impact sectors, although there are gaps in areas such as carbon liabilities in the banking sector. Similarly, for asset classes such as sovereign bonds, climate change is not being considered at all.”

Climate change integration into asset valuations is most frequently seen in equity and property investments. All asset managers have started to look at climate change issues for emerging markets equity well ahead of asset owners. A large number of investors are integrating climate change issues into private equity and infrastructure investments. The level of integration is much lower in other asset classes, most notably fixed income, particularly government bonds, and hedge funds.

Regulatory changes are most frequently considered in investment analysis, in particular the carbon price established by the EU Emissions Trading Scheme (EU ETS). A large majority of investors also considered climate change opportunities, including, for example, feed-in tariffs for renewable energy. Investors are less likely to take account of climate change issues when policy does not make the issue material and when there are uncertainties surrounding climate change policy.

While physical impacts were considered by over 60% of asset owners in 2009 compared to a quarter in 2008, several investors highlighted the difficulties of integrating this into investment decision-making as the long-term nature of many physical climate change impacts means that they are outside current investment horizons. There was also a significant rise in investors considering the risk of litigation to their assets.

While the quality and quantity of available research has increased, there are still gaps in the availability of such research across sectors.

6 Climate change considerations in property investments

This section aims to assess how asset managers and asset owners with property investments integrate climate change considerations into their investment analysis or due diligence process⁶.

Climate change drivers

For property investments, four main areas were highlighted where climate change can have an impact on investment decisions:

- Extreme weather conditions
- Regulatory and policy initiatives
- Public attitudes towards ‘green buildings’
- Cost reductions

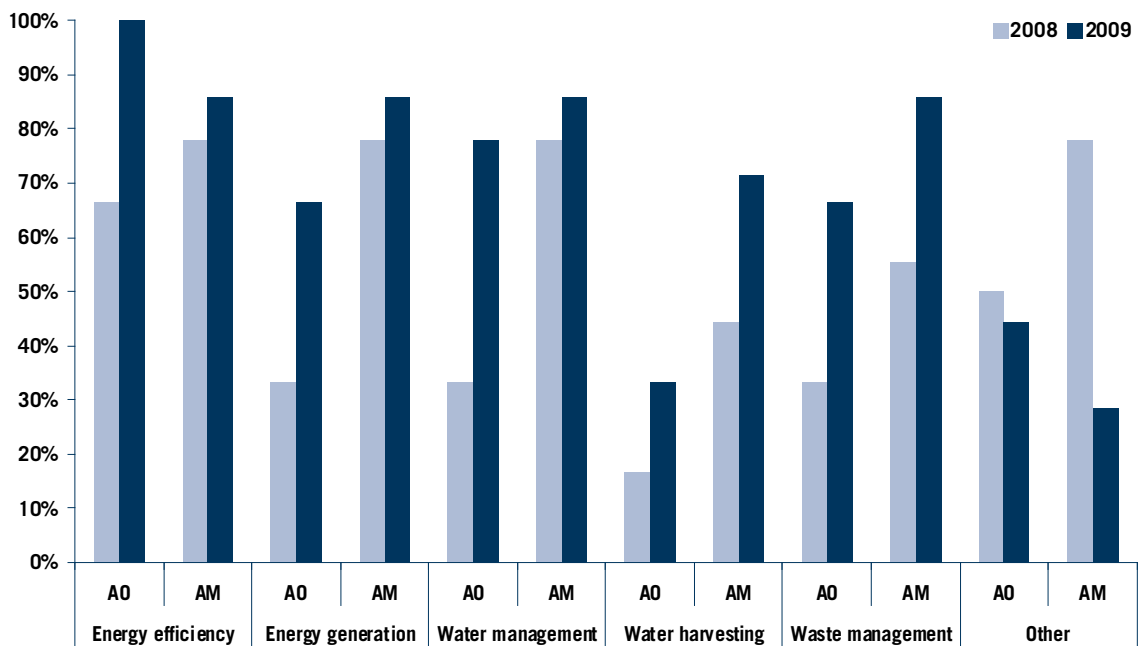
Currently, there appears to be a focus on shorter-term regulatory drivers amongst the signatories. However, some of the leading investment managers are also trying to incorporate the mid- to long term effects of burgeoning investor and tenant preferences towards ‘low carbon’ buildings into their asset appraisal processes.

The implications of extreme weather conditions are still an area of significant uncertainty and few investors are currently incorporating this into investment analysis for property opportunities. During the interviews the signatories noted that the required adaptation across regions is very difficult to estimate.

Consideration of climate change in due diligence process

Figure 10 Considering climate change in due diligence

Proportion of real estate investors who consider the following climate change factors considered in due diligence:

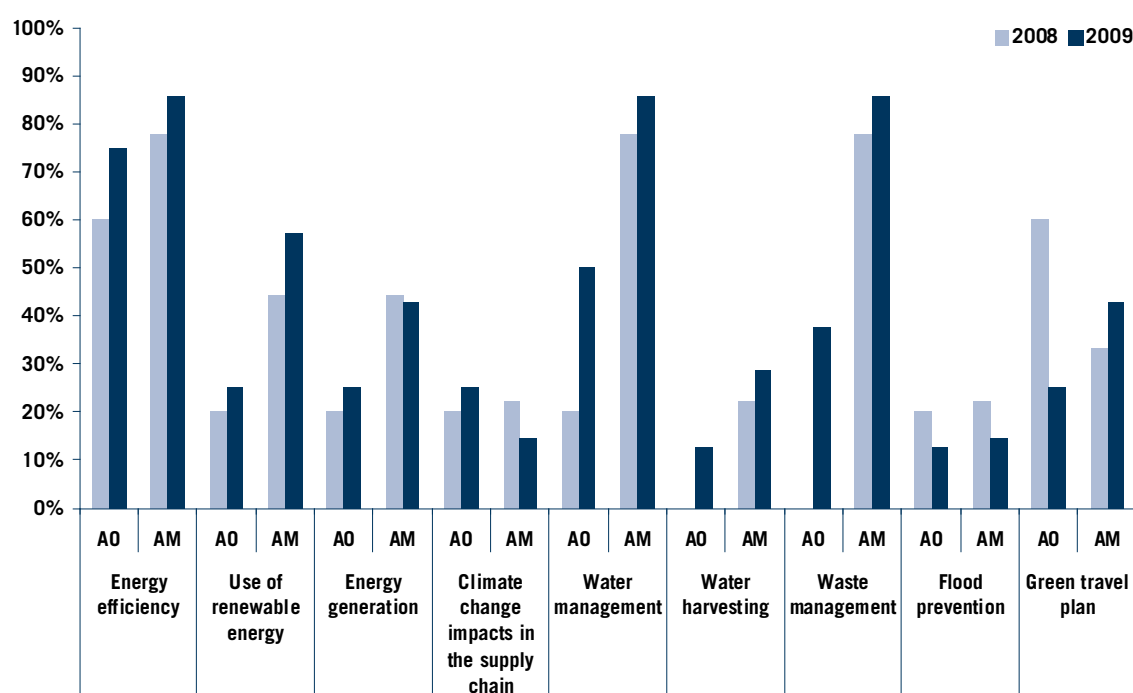


⁶ A total of 9 asset owners with internally managed assets and 7 asset managers investing in real estate have been included in the analysis for this section.

- Consideration of a variety of climate change factors has increased over the past 12 months.
- Asset managers tend to consider more factors than asset owners.
- Energy efficiency has continued to be the climate change factor most often considered by investors in the due diligence processes for buying and continuing to hold real estate assets (all 9 asset owners and 6 out of 7 asset managers).
- Both water harvesting and waste management were considered by an increasing number of investors during 2009. 8 out of 16 investors now consider water harvesting, and 12 out of 16 consider waste management in due diligence processes.
- Investors also consider “other” factors in due-diligence processes, such as dependency on vehicular movements and flood risk.

On-site climate change activities

Figure 11 On-site environmental activities
Proportion of real estate investors involved in on-site activities



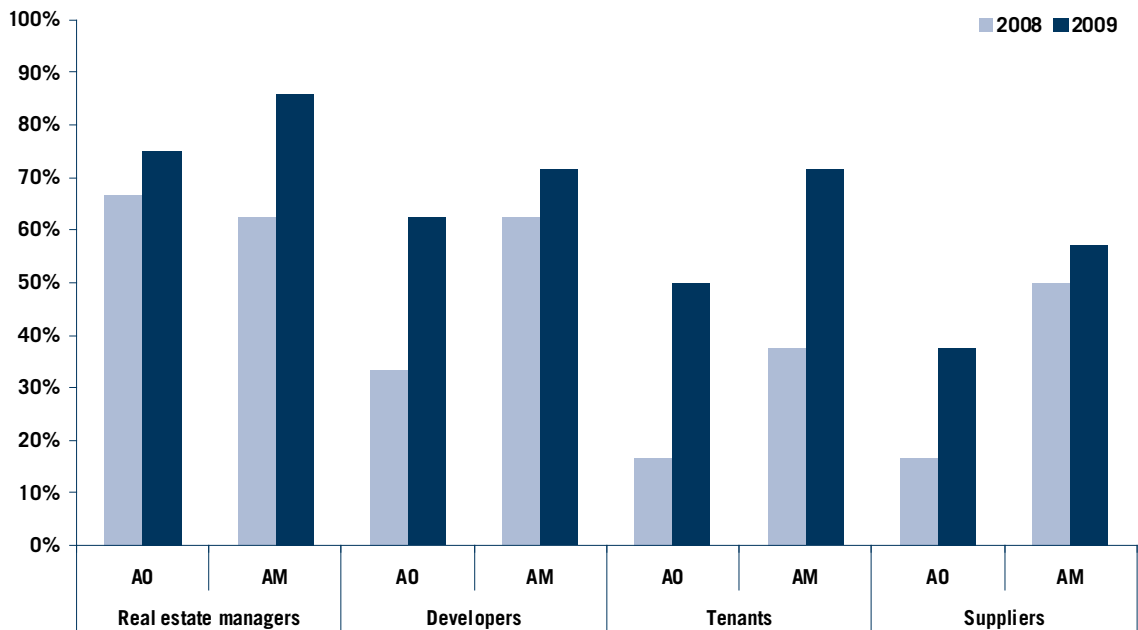
Overall, signatories to the Statement were involved in a large range of climate change-related on-site activities during 2009. Asset managers were more active in this area than the internal managers of asset owners; 6 out of 7 asset managers were involved in on-site activities relating to energy efficiency, water management and waste management.

- Key issues considered by the internal managers of asset owners include energy efficiency (6 out of 8), water management (4 out of 8) and waste management (3 out of 8). Waste management was not given any consideration by the internal managers of asset owners prior to 2009.

Engaging with stakeholders

Figure 12 Engaging with stakeholders

Proportion of real estate investors who engage with relevant stakeholders in order to reduce the climate change impact of their real estate investments



- Asset managers are engaging more actively with stakeholders across all the groups highlighted in the chart above, compared with the internal managers of asset owners.
- The internal managers of asset owners primarily focus their engagement activities on real estate managers (6 out of 9) and developers (5 out of 6).

Box 8 Valuing the impact of climate change in property investments

PRUPIM: Valuing the impact of climate change in property investments

PRUPIM employs consultancy specialists to prepare due diligence assessments for the development of new direct assets and the upgrading of existing buildings. Guidelines for such assessments are provided in its Sustainable Development and Sustainable Refurbishment Frameworks.

Through the adoption of these frameworks PRUPIM commits to, “adopt(ing) cost-effective design solutions and implementation strategies for developments and major refurbishments to maximise their social and economic contribution and minimis(ing) the adverse impact of their activities on the environment.”

Specific issues covered by these frameworks are:

- Energy and carbon
- Water
- Materials and waste
- Land use and ecology
- Pollution

To evaluate the impact that these same issues have on the value of its existing and its prospective investments, PRUPIM has introduced a 'sustainability screen' into its own main worth appraisal system (FAIRVAL) to evaluate the risks and opportunities of climate change on property investments.

This sustainability screen, details eleven areas of assessment of the sustainability aspects of properties. In doing so, it measures the extent to which assets are "future-proofed", which PRUPIM defines as the ability of an asset to maintain its value in the sustainability-driven, changing context for property.

Within FAIRVAL, a predetermined algorithm uses the information entered to assign a score to each potential or held investment which allows the assets' future-proofing to be quantified and benchmarked. This means that, whenever financial information on investments is reported, PRUPIM can also review how 'future-proofed' the asset is considered to be.

This approach has allowed PRUPIM to create a database on the sustainability characteristics of property portfolios and assets. It has also provided a means and a medium for conversations to be held about the sustainability of commercial properties both between PRUPIM staff and with their outside brokers and suppliers.

Investors continue to focus on shorter-term regulatory drivers when investing in and managing properties. Some leading investment managers are also trying to incorporate the mid- to long term effects of burgeoning investor and tenant preferences towards 'low carbon' buildings into their asset appraisal processes.

While investors are more aware of the physical implications of climate change on their property investments, they are still struggling to incorporate the implications of extreme weather conditions and requirements for adaptation into their investment analysis.

Investors have become more active in taking account of climate change in their due diligence processes for real estate investments and in many, but not all, of their on-site climate activities. Energy efficiency continues to be considered most often in due diligence.

While asset managers specialising in property investments are still more active on climate change, there has been a noticeable rise in the proportion of internal managers of asset owners considering climate change factors in their due diligence and on-site climate activities. Water management, energy generation and the use of renewable energy in particular, received more attention during 2009.

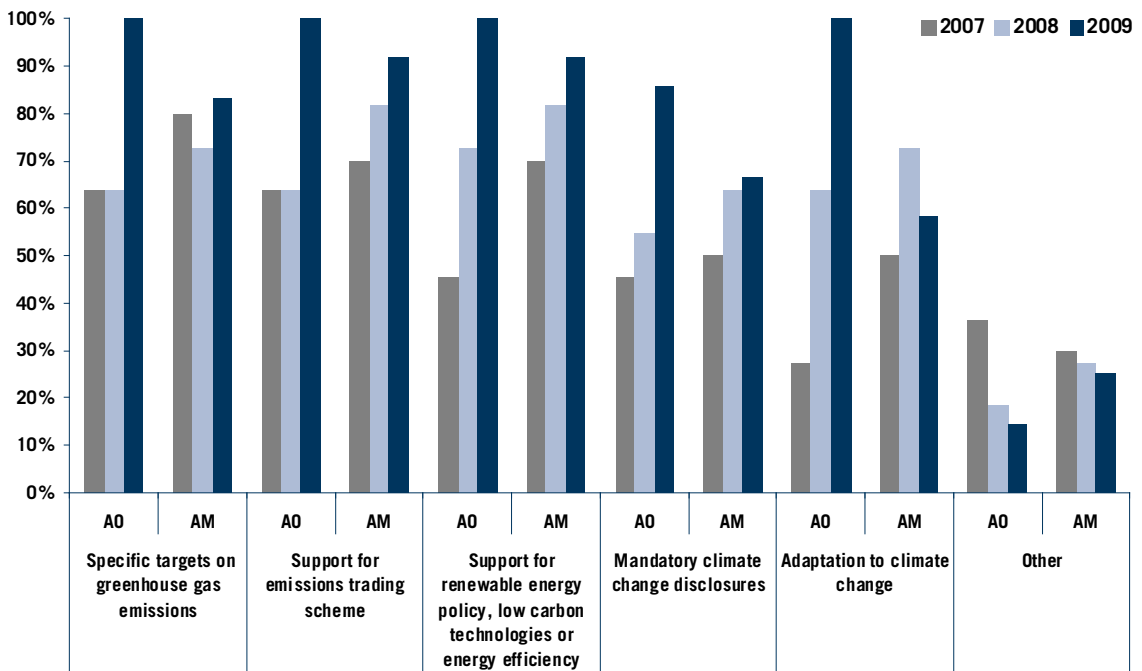
7 Public policy engagement

Lack of strong, credible and long-term policy on climate change is a key barrier for further integration of climate change issues into investment considerations. This section outlines how asset owners and asset managers have engaged with policymakers on specific climate change issues.

The surveys suggest that investors have continued to engage on a wide range of issues, in particular support for an emissions trading scheme and support for renewable energy policy, low carbon technologies and energy efficiency. Asset managers focused less of their engagement activities on adaptation compared to the previous year, while a larger number of asset owners stated that they engaged on this issue. “Other” issues covered by investors include disclosure and reporting.

Climate change issues

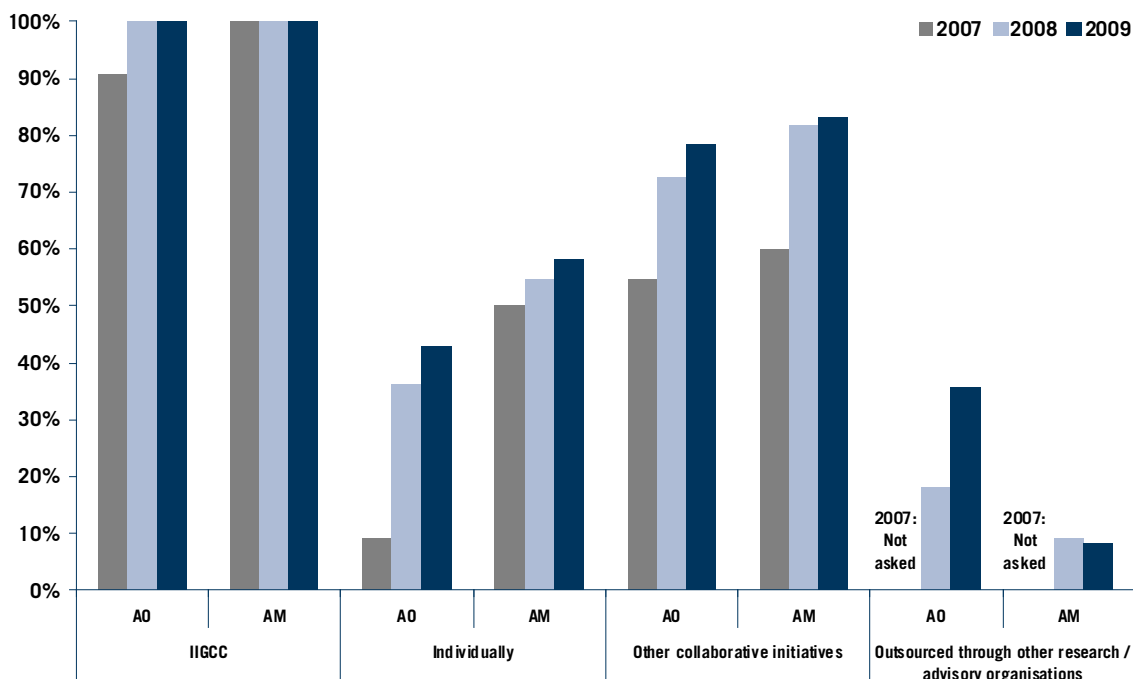
Figure 13 Public policy engagement by issue
Proportion of investors engaging on public policy issues



The IIGCC continues to be the focal point for European investors to carry out their collaborative policy engagement on climate change. Investors also engage with policymakers through groups such as the Aldersgate Group and LAPFF. Asset managers in particular also take on an active role individually in engaging with key policymakers (7 out of 11).

Figure 14 Engagement with policymakers and regulators

Proportion of investors who engage with policymakers/regulators through:



Box 9 Investor collaboration on policy engagement

IIGCC, INCR, Australia/New Zealand IGCC and UNEP FI: International investor collaboration on policy

In 2009, IIGCC partnered with other investor groups around the world, including the US-based Investor Network on Climate Risk (INCR), the Australia/New Zealand IGCC and United Nations Environment Programme Finance Initiative (UNEP FI), to produce the 2009 Investor Statement on the Urgent Need for a Global Agreement. This set out the key elements that institutional investors want to see in a global climate change treaty to catalyse large scale investment in a low carbon economy. The measures presented in the Statement include ambitious greenhouse gas emission reduction targets, backed up by strong national action plans, an effective carbon price and public financing mechanisms to support investment in developing countries.

The Statement was signed by over 180 institutional investors around the world, representing around US\$13 trillion in assets, the largest group ever of global investors calling for strong action from international policymakers in the fight against climate change. It was signed at CEO/CIO or equivalent level and, importantly, signatories included organisations in developing countries, including China and South Africa, as well as developed countries.

IIGCC also provided more detailed input into the policy process on the mechanisms that will help to leverage private sector investment in the fight against climate change. The group published a paper articulating the institutional investor view on how to make carbon markets more effective, and a second one on how public financing mechanisms can be used to scale up private sector finance in developing countries.

The ideas in the second paper were further developed with UNEP and other finance groups, in a report based on case studies, which provided several recommendations on how to overcome – through public financing mechanisms – some of the hurdles that investors face when investing in mitigation or adaptation in developing countries.

These policy recommendations were widely disseminated to policymakers. A highlight was the IIGCC's roundtable at the European Parliament (organised by PGGM) with investors, MEPs and the EU Commission. IIGCC and UNEP FI also held a joint side event at COP15 to take forward the discussions between policymakers and investors.

Investors continued to engage with policymakers on a wide range of issues, in particular support for an emissions trading scheme, support for renewable energy policy, low carbon technologies and energy efficiency.

The largest group ever of global investors collaborated through the IIGCC/INCR/IGCC/UNEP FI Statement to call for strong action from international policymakers ahead of the UN climate conference in Copenhagen.

All asset owners stated that they engaged on climate change issues with policymakers through their membership of the IIGCC during 2009.

8 Conclusions and looking forwards

The report highlights that investors continue to make progress in finding ways to consider climate change across a range of asset classes, although they still struggle to integrate climate change throughout their organisations. Whilst climate change is not widely being considered at the strategic level, it is receiving increasing attention with respect to listed equities, property investments and slightly less so in private equity and infrastructure investments. However, there is still limited focus on climate change in other asset classes, most notably fixed income and hedge funds.

The key barrier to further integration of climate change issues into investments is uncertainty regarding the material impact of climate change and the changing policy environment. The report confirms that investors are taking account of climate change where there is a price on carbon and where there are clear regulatory incentives, e.g. government support for renewable energy. However, climate change issues are not largely integrated when policy does not make the issue material, when there are uncertainties surrounding climate change policy and when the long-term nature of many physical climate change impacts means that they are outside current investment horizons.

In addition, a lack of high quality corporate disclosure and sufficiently deep sell-side climate change research across a wide range of sectors are hampering progress. Climate change integration also varies widely between external managers and there is still an ongoing learning process for both asset owners and asset managers.

The signatories to the Investor Statement on Climate Change are seeking to address these barriers in a number of ways. Asset owners and asset managers are continuing to build their capacity, trying to improve their understanding of the financial implications of climate change and climate policy and providing increased support for climate change research. Asset owners are driving change throughout the investment community by asking their managers questions on the impacts of climate change on their investment decisions. Asset owners and asset managers are also participating in a number of disclosure focused initiatives and have stepped up their engagement with companies on a range of climate-related issues. In addition, investors are engaging with policymakers, particularly through collaborative initiatives, with the IIGCC being a focal point in Europe.

Further progress is critical in order for investors to fully integrate climate change risks and opportunities into their investment decision-making and practices. As policy continues to be the main driver, it is essential that investors now step up their dialogue with policymakers to ensure that the right policy frameworks are in place at national, regional and international levels. Strong, credible and long-term policy with will send the right price signals to investors, increasing confidence in the materiality of climate change issues.

In addition, a further push has to be made to improve climate change research, in order to overcome some of the gaps in data provision which is hampering engagement with companies and investment analysis. Better information is required on climate change impacts on investments in a wider range of sectors, asset classes and on issues that are particularly difficult to integrate into investment analysis, such as adaptation.

As engagement with companies is important to increase and standardise their focus on climate change risks and opportunities, investors must continue their calls for improved disclosure. Finally, further support for asset owners on how to encourage and measure the performance of their asset managers would go some way towards driving change in the investment chain.

This highlights the need for IIGCC to continue to work with all stakeholders –policymakers, companies and the wider investment community – to push for stronger signals on policy, to provide the frameworks for more effective corporate disclosure and corporate engagement and to provide investors with guidance on the strategies that can be used to encourage greater integration of climate change in investment decisions and practices.

Appendix 1 IIGCC investor statement on climate change

Introduction

As institutional investors, cognisant of our roles as major shareholders and bondholders in many of the world's companies and as significant investors in other assets such as real estate, we accept the broad scientific consensus that greenhouse gas emissions from human activities are a critical contributor to changes in the world's climate. Further, we recognise that climate change is likely to result in profound negative consequences for human society, the global economy, and the world's natural systems. As such, climate change presents a series of material business risks and opportunities – for investors and companies – to which investors must respond.

We believe that it is essential to adopt a proactive approach to this issue and to take action now that will result in substantial reductions in global greenhouse gas emissions within a timeframe that minimises the risk of serious impact. In addition, we recognise that there is a need to assess the risks associated with changes already built into the climate system as a result of historic greenhouse gas emissions, and to adapt to these changes if necessary.

It is our view that governments should lead this response by creating a framework that provides incentives and investment certainty to companies and individuals. However, we recognise that investors have a critical role to play in addressing climate change. To be most effective, our response should be coordinated internationally and be collaborative. As investors, we are ready to work with international bodies, national governments, companies, non-governmental organisations and our clients to develop solutions appropriate to the environmental and economic challenges we jointly face.

This Statement sets out our views of the role that can be played by investors in responding to climate change. It is in line with the UN's Principles for Responsible Investment. We call on all institutional investors to support this Statement and to work together in its implementation.

1 The role of investors

We recognise that:

- Investment decisions taken now will have a major impact on current and future global greenhouse gas emissions and, hence, on the world's climate.
- The greenhouse gases already emitted into the atmosphere are predicted to cause environmental change and this will impact upon the companies and assets in which we invest.
- Current investment research, analysis and decision-making and shareholder ownership activities do not fully reflect the risks and opportunities presented by global climate change.
- It is not in the long-term interests of the ultimate beneficiaries of the assets we represent that climate change occurs.
- By working together, investors, their clients, their agents, regulatory authorities and companies can create an investment environment that contributes to a more orderly shift to a low carbon economy and so helps to ensure a more stable climate for current and future generations.

Therefore, as asset owners and asset managers, we will:

- Use our individual and collective influence to encourage governments to adopt policies that provide incentives to reduce greenhouse gas emissions and to encourage appropriate responses to the physical and societal impacts of climate change.
- Build our capacity to assess the investment implications of climate change.
- Work together on initiatives that will help reduce the threat and impacts of climate change.
- Promote information-sharing among the growing number of investors and organisations around the world concerned about climate change.
- Incentivise and/or support research on the risks and opportunities of climate change and climate policy that adds value to our investment decision-making processes.
- Seek to minimise the adverse impacts and maximise the positive impacts of investment decisions on the production of greenhouse gases.

As asset owners we will:

- Encourage our asset managers to integrate consideration of climate change risks and opportunities in their investment research, analysis and decision-making and shareholder ownership activities.
- Consider climate change in our processes for the appointment and evaluation of our asset managers.
- Instruct our advisors and consultants to consider the impacts and opportunities of climate change and climate policy in the advice that they provide to us, in particular to pro-actively consider the opportunities to invest in clean energy.

As asset managers we will:

- Explicitly consider climate change risks and opportunities in our investment analysis and, individually and collectively, develop the tools to assess the short-term and long-term risks and opportunities presented by climate change and climate-related policies.
- Engage with the companies in which we invest to ensure that they are minimising the risks and maximising the opportunities presented by climate change and climate policy. We will also encourage these companies to improve their governance and disclosure of climate risks and opportunities.

2 Working with others

We encourage companies to:

- Clearly define board and senior management responsibilities for climate change.
- Integrate climate change risks and opportunities into business strategy.
- Set high-level policy commitments in support of action on climate change, including commitments to greenhouse gas emissions reductions.
- Provide appropriate disclosures on climate change risks and opportunities that allow investors to assess the financial implications of these risks and opportunities for the company.
- Prepare and report comprehensive inventories of greenhouse gas emissions (both directly from operations and activities and indirectly from, for example, the use of the company's products). These inventories should allow historic performance to be assessed and should include projections of likely changes in future emissions.

- Integrate climate change into product design and operations. This should include setting targets and timelines for reducing greenhouse gas emissions and impacts along the value chain.
- Proactively engage with public policy makers and other stakeholders in support of policy measures to reduce greenhouse gas emissions, and not lobby to obstruct legitimate attempts to reduce greenhouse gas emissions or mitigate the effects of climate change.

We encourage governments to:

- Provide long-term guidance to investors and companies on the direction of public policy – at the national and international levels – on climate change.
- Establish a policy framework that sets clear and challenging yet achievable international targets for greenhouse gas emissions reductions for the short, medium and long-term that will enable atmospheric concentrations of greenhouse gases to be stabilised at a level that averts the most significant risks of climate change, and that provides the necessary mechanisms and institutions for the delivery of these targets.
- Enact national policies that align with international goals for emissions reductions, and that incentivise the development and adoption of low carbon technologies, energy efficiency and other forms of emissions reduction.
- Enact and support regulations that require companies to adequately report on the business risks and opportunities associated with climate change and climate policy.

3 Implementation and monitoring

- The IIGCC will publish an annual report detailing the actions that have been taken by the signatories towards achieving the goals in this Statement.

Appendix 2 List of signatories

Asset Managers	Asset Owners
Aviva Investors	ATP
BlackRock	BBC Pension Trust
BNP Paribas Investment Partners	BT Pension Scheme
CCLA	Environment Agency Pension Fund
Central Finance Board of the Methodist Church	Ethos Foundation
Co-operative Asset Management	Greater Manchester Pension Fund
F&C Management	Joseph Rowntree Charitable Trust
Generation Investment Management	London Borough of Hounslow Pension Fund
Hermes EOS	London Pensions Fund Authority
Insight Investment	Merseyside Pension Fund
PRUPIM	PGGM
Schroders	USS
	West Midlands Pension Fund
	West Yorkshire Pension Fund



IIGCC

Institutional Investors Group on Climate Change