Church Investors Group

The Climate Crisis and Church Investors

Possible Policy Responses

www.churchinvestorsgroup.org.uk

Welcome from
Revd Canon Edward Carter
Chair of the Church Investors Group

Members of the Church Investors Group were amongst the first investors to recognise the pressing environmental and economic need to act on climate change.

For this reason, it is no surprise that they have developed sophisticated thinking on how to implement climate concerns into their investment strategies. Many have a long history of driving change through engagement with companies while others have divested from fossil fuels to a greater or lesser extent. Furthermore, a number of our members are increasingly dedicating capital to investments, like renewable energy infrastructure, that will not only accelerate the transition to a low carbon economy but provide them with, at least, market rate financial returns.

It gives me great pride to see the depth and breadth of activity underway, which is not only limited to direct investment. Several members, including the Church Investors Group itself, are supporting public policy advocacy in this area and, through enterprises like the creation of the Transition Pathway Initiative, some act as catalysts for wider investor action.

But the climate crisis continues to develop, and Church investors cannot stand still. The Church Investors Group is, therefore, pleased to publish this Guide to possible actions that our members, and other investors from all backgrounds, can take as they seek to evolve their approach to this vital issue.

As Church investors we have a theological, as well as a financial, rationale to address climate change. I hope that this report inspires further actions as we do our utmost to mitigate the climate emergency.

Edward Carter.

Chair, Church Investors Group

Introduction

Introduction

Addressing climate change is one of the defining environmental and social challenges of the 21st Century.

There is unequivocal evidence that the Earth's climate is changing. Average surface level temperatures have risen by nearly one degree Celsius since the late 19th Century, with the majority of warming occurring in the past 35 years. There is also compelling evidence that humans are responsible. For the first time in human history atmospheric carbon dioxide levels are in excess of 400 parts per million and other greenhouse gasses, such as methane and nitrous oxide, are present in unprecedented levels. As a result, glaciers are retreating, sea levels are rising, and the number of extreme weather events is increasing.

This is already causing major harm. Ecosystems are changing, with mass-extinctions of species and changing behaviours experienced across terrestrial, freshwater and marine species. Climate change is also having major social impacts, with the world's poorest communities being disproportionately impacted by associated natural disasters and water shortages.

As stewards of Creation, we are called urgently to act.

Why Climate Change Should Matter to Church Investors

Addressing climate change is a key issue for investors.

The Christian doctrines of creation, incarnation and resurrection all point strongly to the beauty and intrinsic value of the natural world, and how it is part of God's purposes. In Laudato Si' Pope Francis reminded us that humans 'are part of nature, included in it and thus in constant interaction with it' and the same is true of economic markets. Indeed, Mark Carney (the Governor of the Bank of England) recently warned that, unaddressed, climate change poses an existential threat to the financial system.

Whilst the majority of the financial impacts of climate change will be felt over the medium to long-term, some of the effects are already being felt. For example, increased extreme weather events are impacting upon the valuation of some infrastructure and real estate assets as well as the performance of the insurance companies that provide financial cover for them. Furthermore, the regulation and legislation required to deliver the necessary, low carbon, future and changing consumer preferences has already impacted European electricity utilities and will challenge the future success of very many more businesses in carbon intensive industries. This ranges from prospective limits on the extraction of fossil fuels (such as thermal coal, oil and gas) to the growth in hybrid and electric vehicles.

CIG members, who are responsible for the management of the Church's financial resources, have a fiduciary, as well as a missional, responsibility to address the climate crisis.

Where are Church Investors on Climate Change?

Church investors have a long history of acting on climate change.

In a recent survey of Church Investors Group members, 75% of participants stated that climate change was explicitly addressed in their investment policies. It is clear that these policies are impacting upon their investment approach. 84% of CIG members noted that their investment portfolios are, at the least, underweight the 'non-renewable' energy sector.

Furthermore, members profiled a variety of actions that they are currently taking to address the climate crisis. These include: ethical restrictions, investment allocations to 'low carbon solutions', company engagement, support for the Just Transition, and promoting climate positive public regulation and legislation.

What can Church Investors Do?

All church investors face a financial and moral responsibility to take significant steps to address climate change and our members continue to develop their approach. However, the specific actions that they take vary. There is no one answer and there can be no 'one size fits all' approach.

To help our members, this paper details four steps that can be incorporated into climate change policy and provides examples of specific questions that they can ask their investment managers.

Public Policy Advocacy

Progressive governmental regulation and legislation will be essential in accelerating the urgent transition to a low carbon economy and mitigating climate change. The policies of national governments and supranational agencies, such as the European Union, can significantly influence the activities of all companies (and other significant emitters) and, as such, will be essential in bringing about the change that we need to see.

Through public policy engagement investors are able to encourage the establishment of rules and regulations needed to curb emissions. This can be done in a variety of ways, particularly carbon taxes or market-based 'cap and trade' schemes (such as the European Union's Emissions Trading Scheme). This work will be increasingly important in the run up to the 2020 UN Framework Convention on Climate Change Conference, when, as part of the Paris Agreement, governments will be asked to increase the ambition of their actions so that they are consistent with the Paris goals of restricting warming to well below 2 degrees Celsius and pursuing a lower limit of 1.5 degrees.

Public policy engagement is also important due to the large amount of global oil and gas production that is produced by sovereign states rather than listed companies. As of 2010 c75% of all global oil and gas production, and 90% of all fossil fuel reserves, were the responsibility of National Oil Companies like Saudi Aramco (Saudi Arabia), Sinopec (China) and PDVSA (Venezuela). As many of these companies are not listed on investment markets, they are not subject to shareholder or societal pressures such as engagement or divestment campaigns. Instead, regulation is the only way to address the negative externalities associated with their business.

Case study
IIGCC

Church investors can, and are, playing an active role in calling for better climate change policies from governments. Membership of the CIG allows smaller church investors to join the Institutional Investors Group on Climate Change (IIGCC) at no cost to themselves. IIGCC work on their behalf to engage national governments and the European Union on key climate policy issues and create opportunities for members to sign on to global investor statements on climate change.

Potential Policy Position

- Have you considered becoming a member of the Institutional Investors Group on Climate Change?

Questions for Your Fund Manager

- What steps have you taken to promote climate-positive legislation and regulation?
- Are you an active member of your regional investor group on climate change and signatory of global investor statements on climate change?

Ethical Restrictions and Divestment

Church investors have traditionally used ethical restrictions as a way of aligning their investments with their mission. This prohibits the investor from buying companies whose predominant business activity is seen to be directly at odds with the Church's mission. Exclusion is often seen as a last resort as, if the investor does not hold shares in a company, it is no longer able to influence its behaviour through engagement.

Many church investors have divested, taken the first steps to divest, or are considering divesting from companies due to concerns about their approach to climate change. However, the extent of these divestments, and how they relate to other climate change alleviation strategies such as engagement, differ from church investor to church investor.

One of the most common climate change positions adopted by CIG members is to divest from companies that generate more than 10% of their revenue from the extraction of thermal coal (as the most carbon intensive fossil fuel) and oil sands (as the most energy intensive form of extraction).

Others have taken decisions to divest from businesses that have not proven their ability to align with a future that limits temperature rises to a level that is well below two degrees Celsius above pre-industrial levels or are not responding well to ongoing engagement.

Finally, others have decided to divest entirely from coal, oil and gas companies due to a desire not to profit from their ongoing activities.

No matter which approach that is taken, many of our members believe that avoiding investment in companies that are poorly placed against the low carbon future is unlikely to stop them from meeting their investment return targets and many expect it to lead to long-term out performance.

Potential Policy Position

- Have you set ethical restrictions based upon climate issues?
- Have you linked divestment to your engagement activities?

Case Studies

The Central Finance Board of the Methodist Church seek to ensure that all of their investment positions align with the requirement to keep the global average temperature rise to well below two degrees Celsius above pre-industrial levels. This has required individual company assessments, engagement and divestments.

The Church of England National Investing Bodies have also taken an approach that combines ethical restrictions with engagement. This means that, whilst they currently restrict coal and tar sands companies, they will divest from businesses in key carbon intensive sectors that, following engagement, do not align themselves with the well below 2 degrees goal of the Paris Agreement. This approach is based upon the work of the Transition Pathway Initiative, which is a publicly available tool, that tests companies' alignment with the transition to a low carbon economy.

The United Reformed Church has requested that all of its Trust Bodies and Church Investors by July 2020 to not invest in any company that derives more than 10% of its turnover from extraction and/or supply of fossil fuels including thermal coal, natural gas and oil. It further asks that its investment bodies scale up investments in renewable energy and clean technologies.

Finally, some Church investors, like the Joseph Rowntree Charitable Trust, have taken the decision to divest from all 'fossil fuel' producers.

Questions for Your Fund Manager

- What steps have you taken to ensure that ethical exclusions are implemented?
- How do you implement ethical restrictions in a way that does not significantly impact upon the delivery of investment returns?
- Are these restrictions reflected in any third-party funds held in our portfolio?
- How do you account for the low-carbon transition in your valuation of companies

Corporate Engagement

Many investors believe that the most impactful step that they can take is by advocating for change at the companies they invest in by taking part in company engagement. Depending on the importance of the issue, engagement can range from letter and email exchanges with investor relations on selected issues, to direct meetings with senior management (including the Chief Executive and Company Chair) or filing shareholder resolutions.

With engagement, it is essential to assess the impact that it has achieved. The Climate Action 100+ engagement initiative, for instance, brings together investors with over $33trillion to engage with more than 160 listed companies with the biggest climate impact. Through this work, Royal Dutch Shell, for instance, have set targets to halve their total emissions (including those generated by burning the products that they sell) by 2050. Benchmarking of Climate Action 100+ companies is provided by a range of data partners.

Many church investors recognise that engagement cannot be open-ended or go on forever. For this reason, they have set progress targets and have stated that they will sell their holdings in companies that have not met them.

Case Studies

The Church of England National Investing Bodies lead engagement with a number of companies on behalf of the Climate Action 100+ coalition. This has included detailed dialogue with companies and the filing of shareholder resolutions. Furthermore, they co-founded and use the Transition Pathway Initiative (www.lse.ac.uk/GranthamInstitute/tpi), one of the data partners of Climate Action 100+, to assess companies' progress. TPI assessments will be factored into decisions as to whether to continue to invest in companies.

Whilst many church investors lack the resources to engage directly with the companies in their portfolios, many are instructing their fund managers to engage for them. The Diocese of Westminster, for instance, joined their investment managers in co-filing shareholder resolutions at oil & gas and mining companies. They also publish an annual account of the engagement that has been done on their behalf in their Annual Report and Accounts

Potential Policy Position

- Do you require your fund manager to engage with companies on issues relating to climate change?
- Have you set targets for companies to meet through engagement?
- Have you instructed your manager to include climate concerns in their approach to voting at company meetings?

Questions for Your Fund Manager

- Do you engage with companies on climate change issues?
- Do you require companies to run their businesses in a way that is consistent with the well below 2 degrees goal of the Paris Agreement?
- What escalation techniques do you use (e.g. voting against directors, speaking at AGMs, filing shareholder proposals, speaking publicly about concerns, divesting) if companies do not respond?

Corporate Engagement

Whilst much of the climate change debate has focussed on whether to divest (or sell) investments in carbon intensive industries, church investors can play a key role in addressing climate change by dedicating capital to investments that provide an environmental benefit.

Some 'positive investments' do not provide the investment returns or risk control that is required by our members (who often face budget deficits that need to be supported by investment returns). There are, however, a number of emerging investment opportunities that can not only deliver returns but also diversify portfolios. As a consequence, increasing numbers of Church investors are asking their fund manager to identify positive investments that meet their investment requirements.

Case study
The URC Trust

The URC Trust seek to dedicate some of their capital to investments that meet their risk/return requirements and provide an explicit environmental benefit. These include investments in energy efficiency initiatives (such as retrofitting buildings with more efficient heating and lighting systems), renewable energy infrastructure (such as solar energy), battery technology (needed to smooth the energy flow from renewable sources) and sustainable forestry.

Potential Policy Position

- Could you commit to make investments that meet your financial requirements and accelerate the transition to a low carbon economy?

Questions for Your Fund Manager

- What percentage of my portfolio is working to accelerate the transition to a low carbon economy?

Summary

As stewards of the Church's financial assets, Church investors face both spiritual and financial imperatives to address climate change. Whilst many UK church investors do not have the resources to address the issue individually, by working through organisations like the Church Investors Group and by engaging with determination with our asset managers, we can all have a significant impact.

Church
Investors
Group

The Church Investors Group represents institutional investors from many mainstream Church denominations and church related charities. Whilst each investor is responsible for its own investment policy our members come together on issues of common concern.

Currently the CIG has 72 members, predominantly drawn from the UK and Ireland, with combined investment assets of over £21 bn.

This Document is for information purposes only and does not constitute any form of investment advice.

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