



# Climate Change and Church Investors: Framing the Debate

## Introduction from the CIG Chair



The members of the Church Investors Group are acutely aware of the importance of environmental issues in our investment practice, in particular the pressing need to take effective action on climate change. Our members are frustrated that fossil fuels continue to be burned in quantities

that will cause dangerous climate change and recognise the urgency of taking effective and timely action to enable us to successfully transition to a low carbon economy.

In my time as CIG Chair I have seen our members act collectively and collaboratively on climate change. Perhaps most significantly, they have helped build a powerful international network of faith investors that works together on global issues such as the environment. However, the challenge of climate change cannot be solved by churches alone. We know that changing public policy is key to the climate change debate and,

to that end, we have actively supported the Institutional Investors Group on Climate Change in its efforts to build a strong global investor voice pressing policy makers for a policy framework that hastens the transition to a low carbon economy. Until we have a supportive policy environment we will continue to play our strongest card: taking an active role in promoting long-term thinking in the companies our members invest in, and encouraging other investors to work with us in these efforts.

At a time when action regarding climate change is more important than ever, from both an ethical and financial perspective, this leaflet reminds us of the pressing science behind climate change and the importance of continued investor action to enable us to avoid dangerous climate change.

A handwritten signature in blue ink, which appears to read "Richard Hurrell".

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## An Overview of the Science

There is now unequivocal evidence that the earth's climate is changing. The Intergovernmental Panel on Climate Change (IPCC) has stated that global average temperatures have risen by approximately three-quarters of a degree Celsius over the past century. We are starting to see a range of impacts that are consistent with this level of warming, including global average sea levels rising at approximately 3 mm per year over the past decade (as a result of thermal expansion of the oceans and ice melt) and changes in rainfall patterns in many large regions, with significant increases being seen in northern Europe and northern and central Asia, but significant declines in water-stressed areas such as the Sahel, the Mediterranean, southern Africa and parts of southern Asia.

Global atmospheric concentrations of carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O) have increased markedly as a result of human activities since 1750. Atmospheric concentrations of these gases far exceed pre-industrial values. Global average CO<sub>2</sub> concentrations have increased from a pre-industrial value of about 280 ppm to about 400 ppm today, and atmospheric concentrations of CH<sub>4</sub> have more than doubled over the same period. The increases in CO<sub>2</sub> concentrations are due primarily to fossil fuel use, while the increases in CH<sub>4</sub> concentrations are predominantly due to agriculture and

fossil fuel use. The IPCC has clearly stated that most of the observed increase in global average temperature since the mid-20th century is very likely due to the increase in anthropogenic (i.e. man-made) greenhouse gas emissions. It has also stated that it is extremely unlikely that this warming could be attributed to natural causes alone.

Under a range of scenarios that take account of a wide range of demographic, economic and technological driving forces and resulting greenhouse gas emissions, the IPCC and others have suggested that global average surface temperatures will be between 1.8 and 4.0°C higher by the end, compared to the beginning, of the 21st Century. While there may be some positive impacts at the lower end of these predicted temperature rises (e.g. crop productivity is projected to increase slightly at mid to high latitudes for local mean temperature rises of up to 1 to 3°C), most of the impacts are expected to be negative. For example, coasts are expected to be exposed to increasing risks including coastal erosion due to sea level rise. By the 2080s, many millions more people than today are projected to experience floods every year due to sea level rise (with the numbers affected being largest in the densely populated and low lying megacities of Asia and Africa) and the health status of millions of people is expected to be affected through, for example,

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increases in malnutrition, and increased deaths, diseases and injury due to extreme weather events. A recurring theme in the predictions that have been made by the IPCC and other organisations such as the World Bank is that it is those countries and populations that are in the weakest economic position that are the most vulnerable to climate change. Developing countries, in particular, are especially vulnerable because of their geographic exposure, low incomes and greater reliance on climate sensitive sectors such as agriculture.

While the core conclusions to be drawn from the work of the IPCC and other organisations in this area is that there is clear evidence that the world is warming, that

this warming can be directly attributed to anthropogenic greenhouse gas emissions and that certain effects (e.g. rising sea levels, changes in hydrological cycles) are starting to be observed, it is important to acknowledge that there are many uncertainties which affect the decisions that governments and other actors (e.g. investors) make. These include scientific uncertainties (e.g. about the precise relationship between greenhouse gas emissions and global average temperatures, about the specific impacts that are likely to be seen, about where the impacts will be seen) and policy uncertainties (e.g. how much will global greenhouse gas emissions be reduced and over what timeframe, what actions will governments take to adapt to the effects of climate change).

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## Investors

The prima facie case for investors to be concerned about climate change is reasonably clear. Companies, properties, infrastructure assets and other investments may be affected by the weather-related impacts of climate change (e.g. droughts, floods, storms, rising sea levels), public policy measures directed at reducing greenhouse gas emissions, and consumer or other pressures to take action on climate change. There may also be opportunities for companies to develop new products or technologies in areas such as renewable energy. The manner in which companies respond to these risks and opportunities may have significant financial implications and may therefore affect the performance of investment portfolios. What makes climate change different is that investors cannot insulate themselves from the effects of climate change; every company consumes energy (and so is exposed to climate change-related regulation and policy), every company or investment is exposed directly or indirectly to the physical effects of climate change, and investors are exposed to the economy-wide consequences of climate change.

But this is not solely about how investors might be affected by climate change. Investors also have an important role to play in financing the low carbon economy, through proactively investing in areas such as renewable energy and clean technology. It is important, however, to acknowledge that institutional investors are bound by their fiduciary duties to their members or beneficiaries. Fiduciary duties (or obligations) exist to ensure that those who manage other people's money act responsibly in the interests of savers (clients or beneficiaries), rather than serving their own interests.

The consequence is that investors cannot simply allocate capital to areas such as renewable energy (or, equally, avoid specific sectors or activities) without carefully considering the investment implications of these decisions, and assessing whether such decisions align with their fiduciary duties.

Finally, investors have a critical role to play in creating the right conditions for the transition to a low carbon economy. They can do this in two main ways. First, they can encourage companies to report on their greenhouse gas emissions, to improve their climate change management systems and processes, to reduce their greenhouse gas emissions, and to develop technology and other solutions to climate change. Second, they can engage with policymakers. The design of public policy has a critical influence on the performance of investments in areas such as renewable and low carbon energy, and on investors' ability and willingness to invest in areas such as cleaner and renewable energy, energy efficiency and decarbonisation. Without robust and effective public policy frameworks, it is unlikely that investors will be willing or able to invest in areas such as renewable energy at the scale and rate necessary to avert dangerous climate change. Moreover, public policy is a key determinant of company action and of the incentives for companies to take action to reduce their emissions. Strong and effective public policy is necessary to reinforce the climate change-related messages being sent by investors to companies.

## What Church Investors are Doing

CIG members take their role to act as stewards of the environment through their investments very seriously. Many members are making their investment portfolios more sustainable through, for example, instituting specialist sustainable investment mandates and employing fund managers who integrate environmental factors more widely into their investment practices and processes.

Collectively, our most productive role is through advocating for the change we want to see. We are working through the Institutional Investors Group on Climate Change to build a strong investor voice pressing policy makers for a policy framework that hastens the transition to a low carbon economy. We are also actively engaged with international Church groups and have organised international conferences to bring international faith investors together and to collaborate on common issues.

In parallel, we are encouraging companies to improve their practices, processes, and performance, and we have a strong record in this regard:

- In 2013, the CIG continued its longstanding engagement programme of encouraging companies who operate in carbon intensive sectors or that could be considered to be laggards in comparison to their peers, to report their greenhouse gas emissions to the Carbon

Disclosure Project (CDP) and to adopt emissions reduction measures. The 2012 CIG engagement resulted in a 30% improvement in the performance of companies targeted and we look forward to seeing further substantial progress in 2013.

- The CIG has also continued to encourage companies to improve their policies, management systems, and reporting in regard to the environmental, social and governance (ESG) risks that they face. The engagement is focussed on FTSE's ESG Ratings and was conducted for the first time in 2012. An independent assessment of the programme by Edinburgh University showed that it had resulted in clear improvement of corporate standards, with 50% of the companies contacted improving their ESG Rating.
- CIG members are playing a leading role in an innovative investor coalition – the 'Aiming for A' project – encouraging ten major UK listed utility and extractive companies to target inclusion in the Carbon Disclosure Project's Carbon Performance Leadership Index.

For more information about the Church Investors Group please see: [www.churchinvestorsgroup.org.uk](http://www.churchinvestorsgroup.org.uk)

For more information about the Institutional Investors Group on Climate Change please see: [www.iigcc.org](http://www.iigcc.org).

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## About the CIG

The Church Investors Group is the membership body for Church investors. It represents 44 institutional Church investor bodies, predominantly based within the UK & Ireland, with investment assets of over £12bn.

### The CIG has four aims:

- To encourage the formulation of investment policies based on Christian ethical principles.
- To assist each other in putting such policies into practice.
- To encourage responsible business practices through engagement with company managements.
- To share information and views on ethical matters related to investment.

### Our work with members

The CIG helps members actively develop and maintain investment policies that represent their faith and wider responsible investment practice:

- Sharing information on current Church investor practice on ethical restrictions.
- Expert speakers from Church investor organisations, the wider investment community, and beyond. 2012 – 2013 speakers include Al Gore and Professor John Kay.
- Publishing in-depth research on issues that matter to our members and their constituents. Previous topics have included executive remuneration and high cost credit.
- Participation in engagement with some of the largest global companies at member meetings.

The CIG secretariat is provided by

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Further information is available on the website [www.churchinvestorsgroup.org.uk](http://www.churchinvestorsgroup.org.uk) or from the CIG Secretary at: [info@churchinvestorsgroup.org.uk](mailto:info@churchinvestorsgroup.org.uk) or call 020 7489 6047