The Climate Change Collaboration
Ashden Trust · JJ Charitable Trust
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UKSIF
UK Sustainable Investment and Finance Association

Not long now

Survey of fund managers' responses to climate-related risks facing fossil fuel companies

Not Long Now:

Survey of fund managers' responses to climate-related risks facing fossil fuel companies

Contents

1. Executive Summary

The fund management sector is clear that International Oil Companies (IOCs) will be negatively revalued within a few years because of climate change related risks. **90% of fund managers expect at least one risk to impact significantly the valuation of IOCs within 2 years.**

Risks include:

- Reputational damage because of their role in causing climate change;
- Litigation for losses from climate change; and
- Regulation to curtail fossil fuel pollution.

There are also risks associated with the energy transition – such as the increasing competitiveness of alternative energy technologies leading to a drop in demand for fossil fuels and a shift in market sentiment as investors lose faith in IOCs ability to transition in a financially successful manner. In all, 89% of managers agreed that these and other transition risks would impact valuations of the IOCs 'significantly ' in the next 5 years.

It's noteworthy that perceptions of these risks have increased dramatically in the last twelve months. Since last year there is a doubling of investors that see transition risk significantly impacting IOCs in 5 years.

Over half of respondents (54%) said the reputational risks of IOCs are already negatively impacting their valuation. A further 25% (79%) said they will impact in the next 2 years.

62% see peak demand for oil impacting valuations within five years and peak demand for gas impacting valuations within 10 years.

A large majority of fund managers – 71% - have not decided if they believe fossil fuel companies are able to make a transition to zero-carbon economy. This raises a question on whether they will make that decision in the timeframe that they expect fossil fuel company valuations to change.

Managers identified two main barriers to creating new fossil fuel free investment products. The main barrier is lack of demand, which all respondents listed within the top three issues. Concern about deviating from benchmarks was also identified as an issue, with 58% listing it within the top three issues.

But alongside the current lack of demand, 71% of managers reported an increase in client interest in the last twelve months.

41% of fund managers reported that they don't have a strategy for engaging with IOCs to mitigate climate change related financial risks. Among those that do, the objectives vary. In response to our prompts, 29% reported they are asking companies to "exercise capital discipline, pursue an ex-growth approach and return capital to shareholders", whereas 38% are asking companies to "transition to a zero-carbon business and pursue capital and income growth". Neither of these two objectives are being asked for by shareholder resolutions to fossil fuel companies in 2018.

Some respondents set milestones for their engagement strategies. One said they will divest if after three to five years they don't see a material change in policy and behaviour, including an explicit commitment to be aligned with the Paris Agreement. Another respondent said that they will sell their shares in IOCs that focus on finding new assets although they did not specify over what timescale they are asking companies to stop exploring for new assets. A third has set objectives to persuade companies within three years to develop a future-proof business strategy and not lobby against climate change regulation.

15 of the total 30 managers already offer active funds or bespoke portfolios that have "Divested from (at least) the 200 coal, oil and gas companies with largest reserves". 13 offer active equity funds, and four others could. Three offer passive equity funds with the same criteria, and three more could. Five managers offer or will soon offer bond funds that are divested from the top 200, six others could.

The fund management sector recognises the imminent risks posed to fossil fuel investments from climate change and the transition toward a zero-carbon economy. This is not reflected in most investment products offered by the firms especially to passive and retail investors which are still in the main based on benchmarks that are heavily tilted towards fossil fuels. There is also inconsistency in the engagement approaches adopted by firms to manage this risk. Their understanding of the timeframe for risks affecting valuations of companies is not integrated into their plans for engaging with companies or making decisions about whether specific companies are likely to offer good investments in the transition towards a zero- carbon economy.

2. Introduction

In March 2018, the Climate Change Collaboration, an initiative of four of the Sainsbury Family Charitable Trusts, and the UK Sustainable Investment and Finance Association, partnered to deliver the second annual survey on climate risk by UK fund managers.

In 2017, the aim was to find out what fossil fuel free investment strategies and products the respondents offered to UK investors and whether they had plans for new products. We also asked their views regarding the timescale of the revaluation of fossil fuel companies because of climate change-related financial risks. This year we compare the 2018 results to some of those findings to track changes in thinking.

In recent years, the IOCs have already been relatively poor investments: over 1, 3 and 5 years the S&P Global oil index has substantially underperformed the MSCI world index. One of this year's questions explored whether respondents attribute this to climate change-related financial risk. In addition, we sought information about fund manager strategies for engagement with IOCs.

3. Survey Response

We wrote to 69 fund managers operating in the UK and 30 responded. Collectively they represent organisations with over £13 trillion under management.

Survey responses were received from:

1. Aberdeen Standard Investments
2. Acadian Asset Management (UK) Ltd
3. Aviva Investors
4. BlackRock
5. BMO Global Asset Management
6. BNY Mellon
7. Candriam
8. CCLA
9. Deutsche Asset Management
10. Edentree Investment Management
11. Epworth Investment Management
12. Fidelity International
13. Finex LLP
14. Generation Investment Management
15. HSBC Global Asset Management
16. Impax Asset Management
17. King and Shaxson
18. Legal & General Investment Management
19. Liontrust
20. M&G Investments
21. Newton Investment Management
22. P1 Investment Management Limited
23. Premier Asset MGMT
24. Rathbone Greenbank Investments
25. Robeco
26. Sarasin & Partners LLP
27. Schroders
28. Sustainable Funds Group, Stewart Investors
29. Walker Crips Group
30. WHEB

4. Survey Content

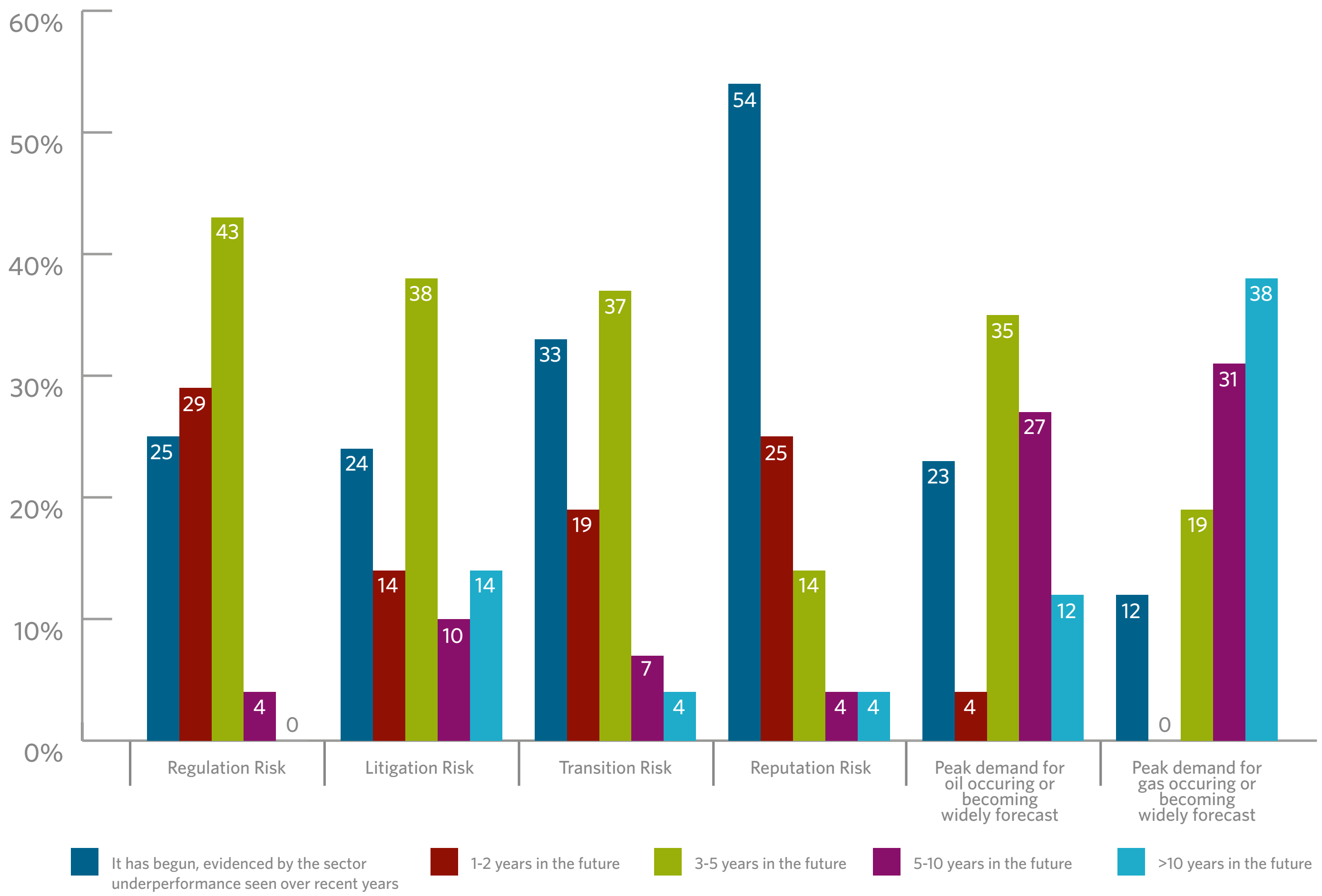
4.1 Advancing risks

Question 1 covered administrative detail. Question 2 asked...Over what timescale do you consider the following risks will significantly impact the valuations of the International Oil Companies (IOCs)?

- Regulation Risk
- Litigation Risk
- Transition Risk
- Reputation Risk
- Peak demand for oil occurring or becoming widely forecast
- Peak demand for gas occurring or becoming widely forecast

- 90% of fund managers expect at least one of the risks listed to significantly impact the valuation of IOCs within 2 years.
- 54% reported that the reputation of IOCs is already negatively impacting their valuation. A further 25% (79%) reported it will impact in the next 2 years.
- 33% reported that transition risk is already impacting valuations. 52% see transition risk impacting valuations within 2 years and 89% within 5 years. This is a significant increase from 46% who reported last year that they expect transition risk to impact within 5 years.
- 52% see regulation risk impacting valuations within 2 years, and 93% say it will impact within 5 years.
- More than 1/5th of respondents said anticipated peak demand for oil is already impacting IOC valuations. 60% see peak demand for oil impacting valuations in next 5 years and peak demand for gas impacting valuations in next 10 years.

Over what timescale do you consider the following risks will significantly impact the valuations of the International Oil Companies (IOCs)?
Over half of the respondents (54%) said the reputational risks of IOCs are already negatively impacting their valuation

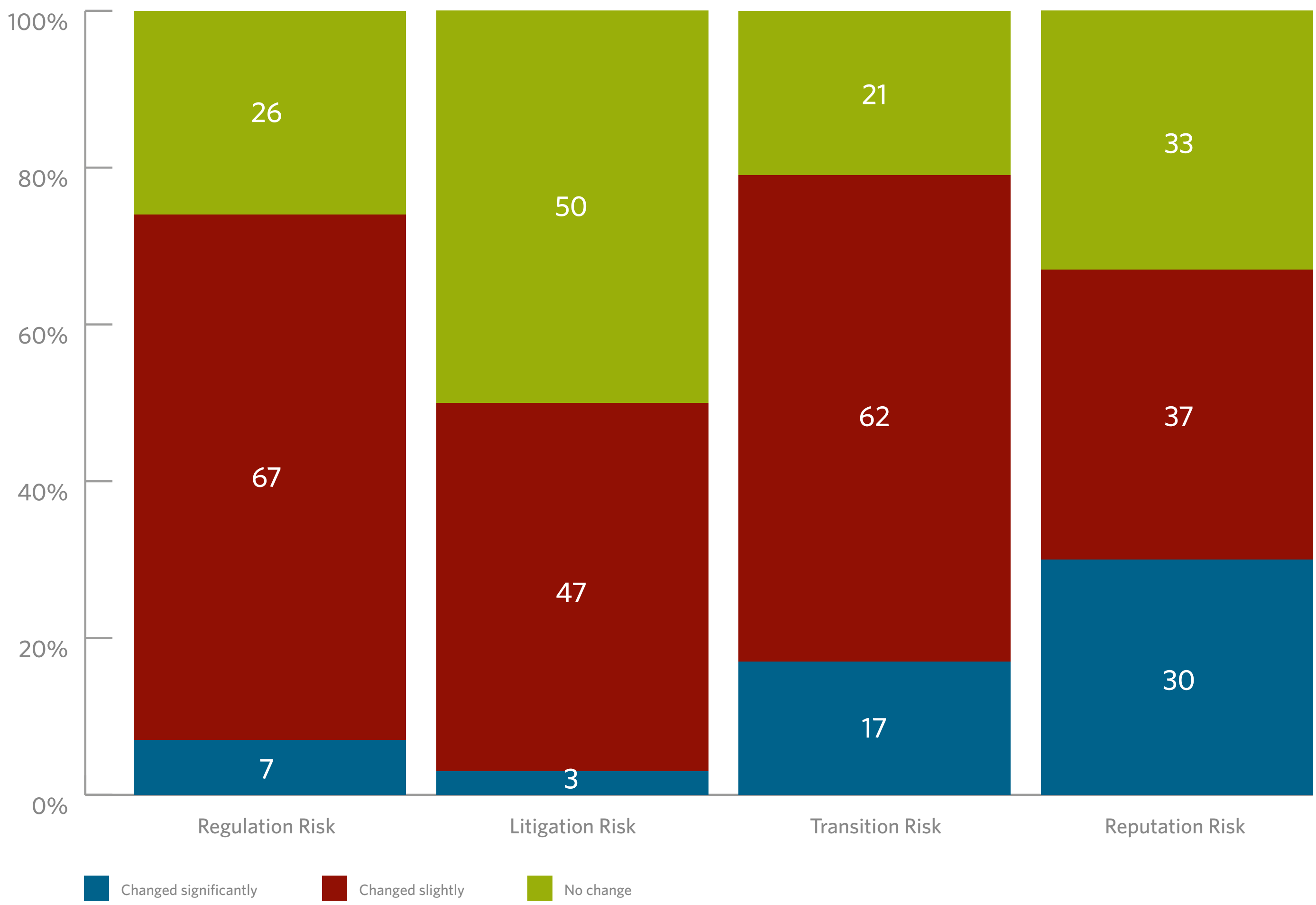


Question 3 asked…To what extent have these risks changed in the last 12 months? (respondents were asked to choose between No Change; Changed Slightly; Changed Significantly.)

- Regulation Risk
- Litigation Risk
- Transition Risk
- Reputation Risk
- Peak demand for oil occurring or becoming widely forecast
- Peak demand for gas occurring or becoming widely forecast

- All of these risks were considered by a majority of respondents to have increased in the last 12 months.
- The biggest perceived change was transition risk, 79% said it had increased in the last 12 months.
- 67% said reputational risk had grown in the last 12 months, including 30% that said it has grown significantly.
- 50% said they thought litigation risk has increased over 12 months and the percentage of fund managers viewing litigation risk as significant within 5 years has doubled.
- The data in respect of litigation risk shows consistency across the two years. Last year 38% said they expected an impact in 3-5 years, now the same percentage say it's within 2 years which suggests manager views are remaining consistent as time passes.

How have the risks changed in the last 12 months?



4.2 Why are managers still investing in IOCs?

Question 4 asked...What are your motivations for investing in IOCs?

We asked fund managers whether they agreed or not with the following statements. They had the option to completely disagree; slightly disagree; neither agree not disagree, agree slightly; completely agree.

- We are active investors and not investing in them would mean we deviate too far from the benchmark in terms of return and volatility
- We are passive investors, so we have to invest in them because they are part of the index
- We believe they offer attractive dividend pay-outs in the short term
- We believe they will offer investors long term capital growth and dividend income by remaining a fossil fuel based (e.g. natural gas) business
- We believe they will offer investors long term capital growth and dividend income by transitioning to a zero carbon (primarily renewables based) business
- We are holding onto these stocks in the event that they adopt a managed decline strategy and return significant capital to shareholders
- NA: We aren't investing in IOCs

- The two joint most popular reasons for investing in IOCs – at 42% each – were "We believe they offer attractive dividend pay-outs in the short term" and "We believe they will offer investors long term capital growth and dividend income by transitioning to a zero carbon (primarily renewables based) business."
- 21% disagreed they will offer investors long term capital growth and dividend income by "transitioning to a zero carbon (primarily renewables based) business." 38% neither agreed nor disagreed.
- There was a clear difference of opinion among respondents to the statement "we are holding onto these stocks in the event that they adopt a managed decline strategy and return significant capital to shareholders" with 29% disagreeing and 29% agreeing.
- The majority of investors – 58% - disagreed with the view that IOCs "will offer investors long term capital growth and dividend income by remaining a fossil fuel based (eg natural gas) business." 17% of respondents responded that they thought companies would be attractive by pursuing this strategy.
- 29% of respondents said they weren't investing in IOCs

4.3 Engagement Strategies for IOCs

Question 5 asked Do you have an engagement strategy for IOCs?

- 41% of managers reported that they don't have a strategy for engagement

Question 6 asked What overall are the goals of your engagement strategy for IOCs?

We prompted with the following:

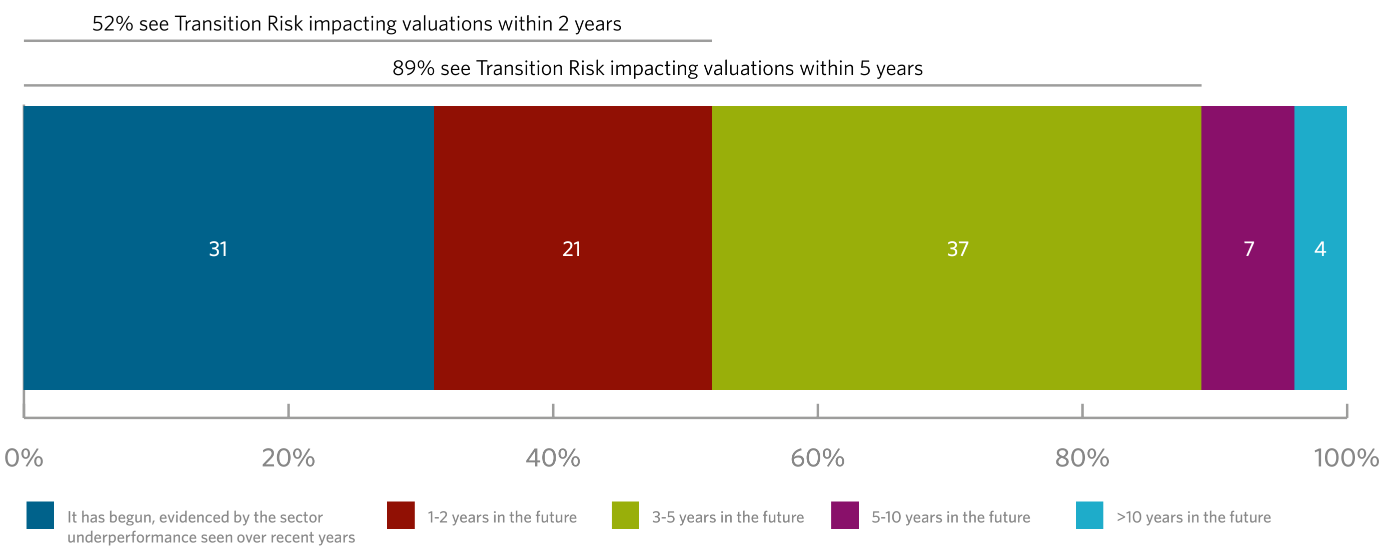
- Companies continue to operate as a fossil fuel based company and maintain high dividend pay-outs
- Companies exercise capital discipline, pursuing an ex-growth approach and return capital to shareholders
- Companies transition to a zero-carbon business and pursue capital and income growth
- Other (please specify)

- The answers showed that the fund management sector does not have clear overall goals for IOC engagement strategies. 29% reported that they are asking companies to "exercise capital discipline, pursue an ex-growth approach and return capital to shareholders", whereas 38% are asking companies to "transition to a zero-carbon business and pursue capital and income growth"
- Some respondents set milestones for their engagement strategies. One said they will divest if engagement hasn't worked after three to five years they don't see a material change, including an explicit commitment to be aligned with Paris. Another said they will sell companies that focus on finding new assets. A third has set objectives to persuade companies within three years to develop a future-proof business strategy and not lobby against climate change regulation.
- The majority of respondents – 71% - have not decided if any IOCs are likely to make a transition to a zero-carbon economy and are not deploying a different strategy for these companies.
- In providing further information, most respondents who said they invest in fossil fuel companies commented that they evaluate companies on a case-by-case basis.
- One respondent reported that they no longer invest in IOCs but would do again if they were to fully transition to a non-fossil fuel based company.

This year, in common with previous years, there are shareholder resolutions relating to climate change that will be presented at fossil fuel company Annual General Meetings. Fund managers will vote, on behalf of their clients, whether they support the resolutions. The full list of resolutions is detailed in appendix 3. None of them has been filed by a fund management company that participated in this survey. How fund managers vote in respect of the 2018 resolutions will be reported later this year by ShareAction.

A large majority of fund managers have not decided if they believe fossil fuel companies are able to make a transition to zero-carbon economy. This raises a question on whether they will make that decision in the timeframe that they expect fossil fuel company valuations to change.

Transition Risk



4.4 Client Interest

Question 9 asked How has client interest in fossil fuel free products and investment strategies changed in the last 12 months?

- 71% reported an increase in client interest over this period. In 2017 the percentage reporting an increase was 54%.

4.5 Product Offering

Respondents were asked:

- Do you currently offer, plan to offer, or would consider offering active or passive equity funds, or bond funds that are divested from (at least) the 200 coal, oil and gas companies with the largest reserves?
- Do you currently offer, plan to offer, or would consider offering active or passive equity funds, or bond funds that are low carbon and underweight oil and gas but not fully fossil fuel free?
- Do you currently offer, plan to offer, or would consider offering active or passive equity funds, or bond funds that are low carbon, always underweight oil and gas and will become fossil fuel free over time?

- 13 fund managers already offer, and 4 more could offer, active equity funds that are divested from (at least) the 200 coal, oil and gas companies with the largest reserves.
- 3 already offer and 3 could offer passive equity funds that are divested from (at least) the 200 coal, oil and gas companies with largest reserves. This is a positive change from last year where only 1 manager had such a fund, and 4 could offer. It shows a significant barrier for asset owners, the lack of passive products, has begun to be overcome. But with the growth of passive investing more generally, it needs to escalate rapidly to avoid putting the risks on savers and pension holders who generally are in passive products.
- This year, we asked about bond products. Regarding bond funds which exclude 200 coal, oil and gas companies with the largest reserves, 4 are already offered, 1 more is soon to be launched, 6 managers could offer them if there is more client demand.
- More respondents offer fully fossil free active equity funds (13) vs funds that are underweight oil and gas but not fully fossil free (8)
- 7 managers reported that they already offer a low carbon bond fund "that is always underweight oil and gas but not fully fossil fuel free." 3 managers reported that they will soon offer such a fund. 6 could offer such a fund.
- 1 manager reported that they will soon offer a passive equity fund that is underweight but not fully fossil free.
- 3 managers said that they could offer passive equity funds that are underweight oil and gas and have specific strategies to further fully exclude oil and gas over time.

4.6 Barriers to excluding fossil fuels in funds

Question 14 asked What is stopping you creating a new fossil fuel free fund?

Respondents were asked to rank the following options in order of importance.

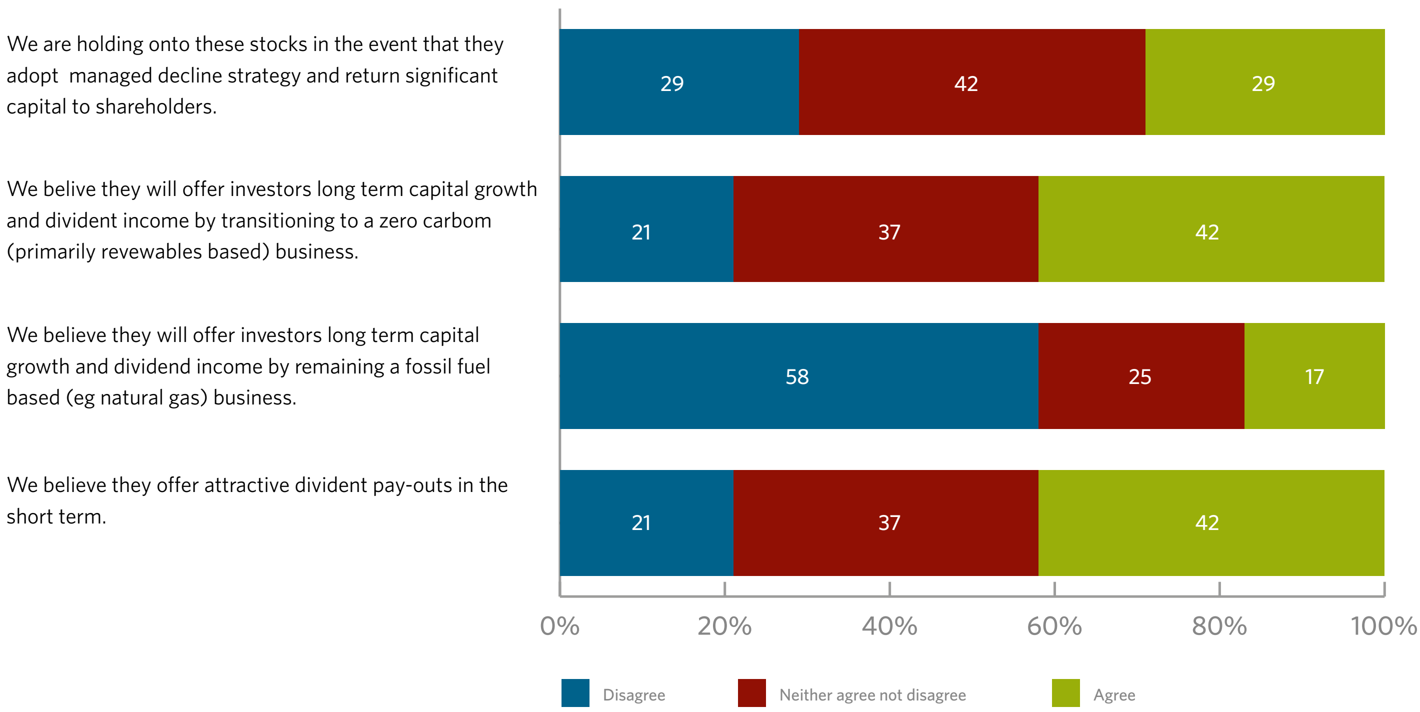
- Lack of client demand
- Concern about missing out on capital return
- Concern about missing out on income
- Concern about volatility
- Concern about deviating from benchmarks
- Other

- Respondents identified the most important barrier to launching new types of funds as a lack of client demand. 54% of respondents identified this as the number 1 issue, 100% put it in the top 3 concerns.

- The least significant barrier was a concern about foregoing income.

- It is clear that fund management firms view fossil fuels and IOCs as increasingly risky investments that are likely to be devalued in the near future. Currently, the majority of fund management firms are not adjusting their approaches to benchmarks and portfolio development to reflect this and cite lack of client demand in support of this position.

How much do you agree with the folloowing statements



	Active Equity			Passive Equity			Bonds		
	Active Equity - Divested from (at least) the 200 coal, oil and gas companies with largest reserves.	Active Equity - Low carbon fund that is always underweight oil and gas but not fully fossil fuel free.	Active Equity - Low carbon fund that is always underweight oil and gas and will become fossil fuel free over time.	Passive Equity - Divested from (at least) the 200 coal, oil and gas companies with largest reserves.	Passive Equity - Low carbon fund that is always underweight oil and gas but not fully fossil fuel free.	Passive Equity - Low carbon fund that is always underweight oil and gas and will become fossil fuel free over time.	Bonds - Divested from (at least) the 200 coal, oil and gas companies with largest reserves.	Bonds - Low carbon fund that is always underweight oil and gas but not fully fossil fuel free.	Bonds - Low carbon fund that is always underweight oil and gas and will become fossil fuel free over time.
Already Offer	1. Acadian Asset Management (UK) Limited 2. BlackRock 3. BMO Global Asset Management 4. Edentree Investment Management 5. Finex LLP 6. Generation Investment Management 7. Impax Asset Management 8. Liontrust 9. Newton Investment Management 10. Schroders 11. Sustainable Funds Group, Stewart Investors 12. Walker Crips Group 13. WHEB	1. BlackRock 2. CCLA Investment Management 3. Edentree Investment Management 4. HSBC Global Asset Management 5. Newton Investment Management 6. Robeco 7. Sarasin & Partners LLP 8. Schroders	1. Blackrock	1. BlackRock 2. BMO Global Asset Management 3. Walker Crips Group	1. BlackRock 2. BNY Mellon 3. Legal & General Investment Management	NA	1. BlackRock 2. BMO Global Asset Management 3. Edentree Investment Management 4. Liontrust	1. Aberdeen Standard Investments 2. BNY Mellon 3. CCLA IM 4. Edentree Investment Management 5. Legal & General Investment Management 6. Liontrust 7. Robeco	NA

	Active Equity			Passive Equity			Bonds		
Could Offer	1. Deutsche Asset Management 2. Epworth Investment Management 3. Aberdeen Standard Investments 4. Candriam	1. Acadian Asset Management (UK) Limited 2. Aberdeen Standard Investments 3. BMO Global Asset Management 4. Candriam 5. Deutsche Asset Management 6. Epworth Investment Management	1. Aberdeen Standard Investments 2. Acadian Asset Management (UK) Limited 3. CCLA IM 4. Deutsche Asset Management 5. Edentree Investment Management 6. Epworth Investment Management 7. Legal & General Investment Management 8.Sarasin & Partners LLP	1. Aberdeen Standard Investments 2. Deutsche Asset Management 3. Legal & General Investment Management	1. BMO Global Asset Management 2. Aberdeen Standard Investments 3. Fidelity International	1. Aberdeen Standard Investments 2. BlackRock 3. Legal & General Investment Management	1. Aberdeen Standard Investments 2. Candriam 3. Deutsche Asset Management 4. Epworth Investment Management 5. M&G Investments 6. Legal & General Investment Management	1. BlackRock 2. BMO Global Asset Management 3. Candriam 4. Deutsche Asset Management 5. Epworth Investment Management 6. M&G Investments	1. Aberdeen Standard Investments 2. BlackRock 3. Deutsche Asset Management 4. Edentree Investment Management 5. Epworth Investment Management 6. Legal & General Investment Management 7. M&G Investments
Will Soon Offer	NA	1. Aviva Investors 2. BNY Mellon 3. Fidelity International 4. Legal & General Investment Management	NA	NA	1.. Deutsche Asset Management	NA	1. Newton Investment Management	1. Aviva Investors 2. Fidelity International 3. Newton Investment Management	NA

In addition to the fund managers listed above, four discretionary fund managers who responded to our survey, P1 Investment Manager, Rathbone Greenbank Investments, Robeco and Sarasin & Partners are able to offer bespoke portfolios in line with the above strategies.

5. Conclusion

The data in this report leads to three conclusions:

- First, the fund management sector recognises the threat to the value of IOCs from various aspects of climate change is real and imminent. 54% of respondents say reputational issues are already affecting valuations and 90% expect one or more of the risks we list to affect values within two years. This is not reflected in most investment products offered by the firms especially to passive and retail investors which are still in the main based on benchmarks that are heavily tilted towards fossil fuels.
- Second, there is inconsistency in the engagement approaches adopted by firms to manage this risk. Their understanding of the timeframe for risks affecting valuations of companies is not integrated into their plans for engaging with companies or making decisions about whether specific companies are likely to offer good investments in the transition towards a zero-carbon economy.
- Third, whilst the report findings show developments in the product range offered by managers, the focus is overwhelmingly in actively managed products seeking to address climate-related risk (17 equity products offered) as opposed to passive (5 equity products offered). This has worrying implications for defined contribution pension plans.

Every citizen is affected by the success of fund management. Even if they are not a direct saver or pension fund beneficiary they will suffer the consequences if investment returns are lower than expected- society overall will be less robust in financial terms. As such, it is a concern to see the prime conclusion of this work: the fund managers' assessment of the climate change-related investment risk in IOCs is that it is real; more than half say reputational risk is already affecting values. This should be a significant concern to policymakers, institutional asset owners and savers.

In the face of this key finding, the report flags the need (and opportunity) for the engagement approaches of fund managers to evolve and for new products to be developed. The fund managers suggest it is lack of client demand that prevents new product development. This takes us into familiar territory with some professionals within the financial system placing responsibility on others. Our view is simple: with the experts highlighting the risk to value as shown in this report, it is incumbent on everyone including fund managers to act. Owners must do more but responsibility sits with all actors in the financial system and given the risks fund managers should not wait to be asked.

While it is somewhat easier for larger asset owners to communicate their preferences, and this would include many trust-based pension schemes, it is very difficult for individual pension holders to express their preferences to pension funds. . In particular, the exposure of many people to IOCs through the growth in contract-based pension schemes, where there are no trustees and the saver bears the investment risk, is a concern. These schemes typically have a focus on passive investment and this report shows that few passive funds are currently properly reflecting th e investment risk of IOCs. Given the scale of investment using passive products, - some analysis suggests as many as 70% of defined contribution schemes use passive funds - then hundreds of thousands of pension savers are exposed to the climate change-related financial risks covered here. Looking ahead, given the short timescale over which the fund managers perceive IOCs will be revalued, it seems inevitable that pension savers will suffer losses without more robust mitigation measures.

We are delighted that at the time of writing the UK authorities appear increasingly ready to act. The Department of Work and Pensions is "minded" to introduce a Pensions Act that will signal the importance of environmental, social and governance considerations in trust-based pensions. The FCA has been asked to consider similar measures in respect of contract-based pensions. Legislative and regulatory interventions are one way of reflecting the importance of these issues.

6. Recommendations

6.1 Fund Managers

- Fund managers should assess and report climate-related risks of investments (including the anticipated revaluation of major oil and gas companies) to clients and discuss strategies that address these risks and meet their investment needs. This recommendation is in-line with the recommendations of the Task-Force on Climate-related Financial Disclosures which have been endorsed by the UK Government
- Develop products, including active and passive fossil free products that manage and mitigate climate change-related financial risks and access opportunities from the transition

6.2 Asset Owners

- Decide how to assess the climate change-related risk of investments and review and agree the options to manage these risks. Asset Owners should seek this support from their service providers. As this report shows, a provider with no expertise in this area is not competent to address a risk considered to be imminent by experts)
- Assess the suitability of your benchmarks and consider adopting ones which may better reflect the energy transition taking place
- Communicate the demand for new or amended climate change resilient products to fund managers
- Switch fund manager if you are not assured they are sufficiently addressing climate changed related financial risks

6.3 Pension Funds

- Defined contribution pensions funds should provide default funds that address climate change-related financial risks and are, for example, either fossil fuel free or underweight in fossil fuels
- Inform pension holders of climate change-related financial risks, consult them on their preferences to manage these risks and reflect those in the fund's investment strategy

6.1 The Pensions Regulator and the FCA

- The Pensions Regulator should continue to provide clear guidance to pension funds on climate change-related financial risks and the legal responsibility trust-based pension funds must adequately address these risks
- The FCA should offer similar guidance to contract-based schemes as recommended by the Law Commission

7. Appendix 1

7.1 Details of the funds offered

24 respondents gave details of funds, their unedited text is shown below

7.1.1 If you answered that you do or will offer a product or strategy that is “divested from coal, oil and gas” please give details below.

Organisation	Minimum size of assets for participating investors	Fee structure	Market segment	Exclusion criteria	Risk Profile	Benchmark	More information
Blackrock	EUR 5k	Annual management fee: 0.15%	Global	Global market for fixed income securities issued to fund projects with direct environmental benefits. Index-eligible green bonds to ensure they adhere to established Green Bond Principles and to classify bonds by their environmental use of proceeds	3 (out of 7)	BBG Barc Global Green Bond 100% EUR Hedged Index	
BMO	OEIC: £1,000 for retail share class; £500,000 for institutional share class	Annual management fee: 1.50% for retail share class; 0.75% for institutional share class	Global Equity	Excludes companies with ownership stakes in oil, gas or thermal coal reserves. Utilities and energy-intensive industries assessed on a case-by-case basis on adequacy of climate policies.	5/7	MSCI World Index	The BMO Responsible Global Equity strategy is available through a Luxembourg-domiciled SICAV and UK-domiciled OEIC. Full climate change policy for the Responsible fund range (available on request) also covers investment in opportunities, engagement, public policy and disclosure.
	£1,000 for retail share class; £500,000 (share class 2) £50 million (share class 3) for institutional share classes	Annual management fee: 1.50% for retail share class; 0.75% (share class 2) institutional share class 0.25% (share class 3) for institutional share classes	UK Equity	Will exclude companies with ownership stakes in oil, gas or thermal coal reserves from 1 January 2020. Utilities and energy-intensive industries assessed on a case-by-case basis on adequacy of climate policies.	F&C Responsible UK Equity Growth Fund: 5/7 F&C Responsible Income Fund: 4/7	FTSE All-Share	We are able to offer two funds covering UK equity: F&C Responsible UK Equity Growth Fund and F&C Responsible Income Fund.
	£1,000	Annual management fee: 0.75%	Emerging Markets Equity	Excludes companies with ownership stakes in oil, gas or thermal coal reserves. Utilities and energy-intensive industries assessed on a case-by-case basis on adequacy of climate policies.	5/7	MSCI Emerging Markets NR	Full climate change policy for the Responsible fund range (available on request) also covers investment in opportunities, engagement, public policy and disclosure.

Organisation	Minimum size of assets for participating investors	Fee structure	Market segment	Exclusion criteria	Risk Profile	Benchmark	More information
BMO continued	£1,000 for retail share class; £500,000 for institutional share class	Annual management fee: 0.15% 0.50% for institutional share class	Sterling Bond	Will exclude companies with ownership stakes in oil, gas or thermal coal reserves from 1 January 2020. Utilities and energy-intensive industries assessed on a case-by-case basis on adequacy of climate policies.	3/7	Markit iBoxx Sterling Non-Gilts	Full climate change policy for the Responsible fund range (available on request) also covers investment in opportunities, engagement, public policy and disclosure.
	2,500 for retail share class; €5 million for institutional share class	Annual management fee: 0.50% for retail share class; 0.25% for institutional share class	Euro Corporate Bond	Will exclude companies with ownership stakes in oil, gas or thermal coal reserves from 1 January 2020. Uztilities and energy-intensive industries assessed on a case-by-case basis on adequacy of climate policies.	3/7	BBI Euro Aggregate Corporate TR	Full climate change policy for the Responsible fund range (available on request) also covers investment in opportunities, engagement, public policy and disclosure.
Impax							Impax offers several environmental strategies. Please contact them for further details.
Acadian	$1 million	75bps	Emerging Markets	Exclusion of companies that own fossil fuel reserves	Tracking error of 4-6%	MSCI EM	
P1 Investments	£10,000	0.4%	Intermediary	Various	Various	Various	A range of model portfolios available on platforms
WHEB	£3,000	AuM based	Global Equity long-only	No exclusion criteria	Active equity so higher risk - SRRI score 5 out of 7	MSCI World	
Walker Crips	£100000	0.7% per annum AMC	Multi Asset	Ethical portfolio (model and bespoke)	All	MSCI WMA	
Rathbone Greenbank Investments	£300,000	TBC	Global multi asset	Client led	Client led	Client led	We offer bespoke portfolios rather than funds
Finex LLP	USD 70,000	1.5% +10% performance	Long/Short Equity	Full - Fossil Fuels, Coal, High Risk Utilities, Environmental, Human Rights, Tobacco, Alcohol, Nuclear Weapons, AP Mines	High	Wilder Hill Clean Tech Index	
Newton	£250	In line with our core strategies. 0.75%, 0.625%, 0.5% and 0.625%	Multi-asset absolute return, global equity, sterling bond and US equities.	fpinfosdnfosdn			

Organisation	Minimum size of assets for participating investors	Fee structure	Market segment	Exclusion criteria	Risk Profile	Benchmark	More information
Newton	£250	In line with our core strategies. 0.75%, 0.625%, 0.5% and 0.625%	Multi-asset absolute return, global equity, sterling bond and US equities.	The Newton sustainable fund range will not invest in companies that we deem to be incompatible with the 2 degree world. We take heavy emitting companies and ask whether they would be profitable were their emissions to be taxed at a rate that is sustainable with the climate change agenda and whether they have a plan in place to deal with their emissions. if the answer is no then the company is un-investable. In practice this means that the energy sector is excluded but the overall aim is to engage with companies rather than to exclude.	We are offering a range of funds with different risk profiles from low/medium for the bond fund to high for the equity funds.	LIBOR +4%; MSCI ACWI index; 1/3rd BAML gilt index, 1/3rd BAML non-gilt index, 1/3rd BAML global high yield constrained index (GBP hedged); S&P 500 hedged.	We aim to enhance our sustainable range to include further strategies based on Newton's core strategies. Sustainable Global Equity, and Sustainable US Equity are both launched, Sustainable Real Return and Sustainable Sterling Bond are due to launch on 23rd April.
Sustainable Funds Group, Stewart Investors	£1000	Depends on product	Listed equities - Asia Pacific, Emerging markets and Worldwide	None - our consideration of investment risk means we do not hold fossil fuel companies	We are long term investors. We strive to make investment decisions with a minimum 5 year time horizon. We have an absolute return mindset, defining risk as losing clients money, rather than deviation from a benchmark index.		http://www.stewartinvestors.com/en-gb/our-funds/sustainable-funds-group/

Organisation	Minimum size of assets for participating investors	Fee structure	Market segment	Exclusion criteria	Risk Profile	Benchmark	More information
Schroders	€/$1,000 for retail shareclass; €/$5m for institutional share class; €/$50m for separate accounts	Retail share class: 1.5% management fee; institutional share class: 0.75% management fee; segregated mandate: tiered fee structure	Thematic Global Equities	The strategy excludes companies that report significant ownership of fossil fuel reserves (e.g. oil, coal, gas, tar-sands, shale-gas)	The Fund may be suitable for Investors who are more concerned with maximising long term returns than minimising possible short term losses. The capital is not guaranteed. Investments denominated in a currency other than that of the share-class may not be hedged. The market movements between those currencies will impact the share-class. The fund will not hedge its market risk in a down cycle. The value of the fund will move similarly to the markets. Changes in China's political, legal, economic or tax policies could cause losses or higher costs for the fund.	The fund is benchmark unconstrained. However, the MSCI World Index is used as a reference benchmark for the purpose of performance measurement and attribution.	Schroders' Global Climate Change Equity is an actively managed, thematic global equity strategy that seeks to maximise excess returns by investing in companies that are positively impacted, or likely to benefit, from efforts to mitigate or adapt to the impact of climate change. We take a holistic view of climate change and in doing so, recognise that the theme will have broad application across multiple industries. As a result, climate change opportunities can be identified across industries and sectors, and this is reflected in both the investment opportunity set – which is captured in Schroders' proprietary climate change universe – and the composition of the fund. The investment thesis for the fund is founded on the expectation that the accelerating pace of government policy and regulation intended to de-carbonise the world's economies is creating a favourable outlook for companies involved in efforts to mitigate climate change. More widely, these pressures are also increasing the need for businesses to adapt to the impact of climate change. The fund invests across five key themes – environmental resources, low-carbon leader, clean energy, sustainable transport and energy efficiency.
Candriam	TBD	TBD	European Equities Bonds	- Company with proven coal, oil or gas reserves - Company that explores for, extracts, processes, refines, or transmits coal, oil, and gas - Utility company that burn fossil fuels to produce electricity	TBC	MSCI European Reference Index Ibbox Euro Corporate Benchmark The benchmark is mentioned for informational purposes only. The strategy will not consist in replicating or outperforming the benchmark.	These funds could be available from Q3 2018
Generation IM	$3mn (Global Equity strategy); $1mn (Asia Equity strategy)	1% management fee, 20% performance fee	Global Equity and Asia Ex Japan Equity	No explicit exclusion criteria but see further information.		MSCI World and MSCI Asia Ex Japan	Generation offers two separate listed equity investment strategies: a Global Equity and an Asia ex Japan. The firm's investment philosophy and process underpins both strategies, which seek to invest in sustainable businesses aligned with a healthy, fair and safe society, run by management teams for the long term. We believe the transition to a lower carbon society will be a significant driver of business risk and opportunity, and as a result their investment process has led us away from high carbon intensive sectors, including coal and oil and gas companies – although we do not explicitly exclude any sector.
Liontrust	There is no minimum investment requirement for their open-ended funds. For segregated mandates they would consider investment of £20m as a minimum	Fees vary between 0.2% for certain bond funds, to 0.75% for equity funds. For a segregated mandate they consider the fee on a case by case basis.	IA Flexible Investment; IA Europe Ex UK; IA Global; IA UK All companies; IA Sterling Corporate Bond	The open-ended funds apply screening criteria against controversial industries such as tobacco; weapons systems; pornogrpahy; nuclear; gambling and climate change (fossil fuels). For a full range of criteria please visit the link below. For segregated accounts we can tailor this criteria to the needs of the client. https://www.liontrust.co.uk/handlers/DownloadDocumentsHandler.lion?itemids=fc1bfe8f-110d-495b-8051-f448e9602d98	NA	Several funds have no fixed benchmark. Others use Markit iBoxx GBP Corporates; MSCI Europe ex UK; MSCI World	

7.1.2 If you answered that you do or will offer a product or strategy that is "Low Carbon fund that is always underweight oil and gas but not fully fossil fuel free" please give details below.

Organisation	Minimum size of assets for participating investors	Fee structure	Market segment	Exclusion criteria	Risk Profile	Benchmark	% of carbon reserves avoided	More information
HSBC	NA	1.50% retail, 0.75% institutional	Global equities	Controversial weapons	2-8% tracking error, currently 2.6%	MSCI ACWI		HSBC Global Equity Climate Change
Blackrock	£25 million	Net expense ratio: 20bps	World	The MSCI Global Low Carbon Target Indexes are designed to address two dimensions of carbon exposure – carbon emissions and fossil fuel reserves. By overweighting companies with low carbon emissions relative to sales and those with low potential carbon emissions per dollar of market capitalization, the indexes aim to reflect a lower carbon exposure than that of the broad market. The indexes are designed to achieve a target level of tracking error while minimizing the carbon exposure		MSCI World Low Carbon Target Index	58% lower emissions per total capital invested as of YE 28th February 2018	Domiciled in the UK
Legal and Genera	£1,000 initial investment (R class), £1m (I class)	No entry/ exit/ performance fee, ongoing charges 0.30%	IA Global	Pure-play coal miners, manufacturers of controversial weapons	As a 100% equity fund we would classify the fund as high risk however; we are developing a spectrum of approaches with varying risk/ return profiles in acknowledgement of the demand which exists for multiple styles of approaches	FTSE All-World ex CW Climate Balanced Factor Index	90% (March 2017)	http://www.lgim.com/uk/ad/funds/future-world-equity-factors-index-fund/accumulation/class-i.html
Aviva				- 25% turnover from coal operations - >10% turnover from oil sands. >25% turnover from oil operations. - Any involvement in oil operations in the Arctic. >10% turnover from aviation activities		FTSE All Share, MSCI World and Markitt iBoxx		To be available in due course
Schroders	$1,000 for retail share class; $5m for institutional share class; $150m for segregated mandate	Retail share class: 1.3% management fee; institutional share class: 0.65% management fee; segregated mandate: tiered fee structure	Global Equities	1) Companies that derive any revenue from Coal or Controversial weapons (defined as cluster munitions, nuclear weapons, biological/ chemical weapons). 2) Companies that derive 10% of their revenues from conventional weapons, tobacco, predatory lending, adult entertainment, gambling, alcohol or nuclear power. 3) Companies on the Schroders exclusion list, Norges Bank exclusion list or Church of England exclusion list	Disclaimer in footnote [3]	MSCI AC World	We avoid companies with any Coal reserves and companies who have over 25% of their reserves in oil sands	

[3] The capital is not guaranteed. The fund is not tied to replicating a benchmark and holdings can therefore vary from those in the index quoted. For this reason the comparison index should be used for reference only. The fund can be exposed to different currencies other than that of the fund's base currency and may not be hedged. Changes in foreign exchange rates could create losses. Emerging equity markets may be more volatile than equity markets of well-established economies. The fund's operations may depend on third parties in countries where operational oversight standards are less developed. Changes in China's political, legal, economic or tax policies could cause losses or higher costs for the fund. The fund will not hedge its market risk in a down cycle. The value of the fund will move similarly to the markets. Equity prices fluctuate daily, based on many factors including general, economic, industry or company news. Investments in small companies can be difficult to sell quickly which may affect the value of the fund and, in extreme market conditions, its ability to meet redemption requests upon demand. In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares. Failures at service providers could lead to disruptions of fund operations or losses. The fund enters into financial derivative transactions. A derivative may not perform as expected, and may create losses greater than the cost of the derivative. There is no guarantee that a financial derivative contract will achieve its intended outcome, even if the terms of the contract are completely satisfied. The counterparty to a derivative or other contractual agreement or synthetic financial product could become unable to honour its commitments to the fund. The unrealised gain and some of the desired market exposure may be lost.

Organisation	Minimum size of assets for participating investors	Fee structure	Market segment	Exclusion criteria	Risk Profile	Benchmark	% of carbon reserves avoided	More information
HSBC	NA	1.50% retail, 0.75% institutional	Global equities	Controversial weapons	2-8% tracking error, currently 2.6%	MSCI ACWI		HSBC Global Equity Climate Change
Aberdeen Standard Investments	None	Not disclosed as seg. fund	Aggregate credit - Global and Europe * 2	Client specific lists	Moderate in credit space	Barclays Global Agg credit 1-10years (Eur hedged); 3M Euribor; Barclays Euro Agg AAA-A 90% Barclays BBB Corp 5% Barclays BBB Treasury 5% 1-5 years	65% based on carbon intensity (scope 1 and 2) as opposed to carbon reserves avoided	Currently seg mandates offered but design is in place for pooled fund if sufficient interest
BNY Mellon	Negotiable	Minimum annual fee, negotiable by strategy	Covers equities & bonds	Dependent on strategy, but typically coal	Negotiable	Varies by market		If interested we can send marketing decks for these strategies.
Newton	£250	In line with our core strategies. 0.75%, 0.625%, 0.5% and 0.625%	Multi-asset absolute return, global equity, sterling bond and US equities.	The Newton sustainable fund range will not invest in companies that we deem to be incompatible with the 2 degree world. We take heavy emitting companies and ask whether they would be profitable were their emissions to be taxed at a rate that is sustainable with the climate change agenda and whether they have a plan in place to deal with their emissions. if the answer is no then the company is un-investible. In practice this means that the energy sector is excluded but the overall aim is to engage with companies rather than to exclude.	We are offering a range of funds with different risk profiles from low/medium for the bond fund to high for the equity funds.	LIBOR +4%; MSCI ACWI index; 1/3rd BAML gilt index, 1/3rd BAML non-gilt index, 1/3rd BAML global high yield constrained index(GBP hedged); S&P 500 hedged.	In practice 100%, but we would make exceptions for companies in transition such as those disposing of their oil and gas assets or where the percentage of revenue coming from fossil fuels is declining rapidly.	
Sarasin & Partners LLP	£1,000	0.75% 1st £3m, 0.625% next £2m, 0.425% next £15m, 0.375% next £15m, 0.3% above £35m.	Multi-asset fund	>5% revenue from thermal coal or tar sands; companies that fail our climate stress test. Divestment and exclusion post engagement and failure of companies to meet our judgement of their alignment with the Paris Accord.	4-7 within a range of 1-10, 10 being the riskiest.	Bespoke: 17.5% Bonds, 70% Equities, 7.5% Property, 5% Alternatives		The guiding philosophy for our Climate Active CAIF is alignment with the Paris Accord and an emphasis on driving decarbonisation. The process combines a climate stress test for excluding risky companies; active company engagement; and robust policy outreach to promote action on climate change. The CAIF is available to charities. However, we also manage segregated mandates for a range of other charities and institutions / private investors. These segregated portfolios can apply additional bespoke ethical / sustainable overlays. We can offer both single asset (bond and equity) and multi asset class segregated portfolios.

Organisation	Minimum size of assets for participating investors	Fee structure	Market segment	Exclusion criteria	Risk Profile	Benchmark	% of carbon reserves avoided	More information
Walker Crips Group	£100000	0.7%	Multi Asset	Ethical portfolio (bespoke)	All	MSCI WMA		
Robeco	TBD	TBD	Robeco offer a range of funds with different market segments inc. - Global Equity - Emerging markets - Investment grade credits	Targeting 20% reduction of environmental footprints (carbon/ energy consumption/ water/waste) versus benchmark, applying values-based exclusions (incl. thermal coal).	Range	MSCI World; MSCI AC World; MSCI Emerging Markets; Bloomberg Barclays Euro Aggregate: Corporates; Bloomberg Barclays Global Aggregate: Corporates		For equity funds The funds aim for a significantly (20-30%) better ESG score than the index and reduced footprints (-20%) for greenhouse gas emissions/waste/energy consumption/water use, and applies voting & engagement. In managing active equity or bond portfolios Robeco can facilitate client specific requirements through segregated mandates, i.e. requirements regarding reduction of carbon exposure or divestment of oil & gas companies.

Other responses:

- CCLA - see Ethical Fund on CCLA website
- P1 Investments – we run portfolio of funds
- Rathbone Greenbank Investments – we offer bespoke portfolio of funds
- Sarasin & Partners – we manage both bespoke/segregated portfolios as well as Funds. We already manage segregated portfolios that have divested from fossil fuels and others that are partially divested / engaging etc.

7.1.3 If you answered that you do or will offer a product or strategy that is "Low Carbon fund that is always underweight oil and gas and will become fully fossil fuel free over a specified time frame" please give details below.

Organisation	Blackrock
Minimum size of assets for participating investors	Class A: $5,000; Class D: $100,000; Class I: $1,000,000
Fee structure	Initial Charge: 5% (all classes). Management fee - Class A: 1.75%; Class D & I: 1%
Market segment	BGF New Energy Fund invests in those companies that are enabling, and benefitting from, the transition to a lower carbon world. Investment themes are identified through the top-down analysis of energy markets. We examine the long term growth outlook for different segments of the market (e.g. renewable energy, energy efficiency), current and prospective regional regulatory structures, the relative pricing/competitiveness of alternative technologies and the scope for technical improvement. The team screens the investment universe on valuation, performance and ESG metrics to help us identify ideas for inclusion in the portfolio
Exclusion criteria	Formal exclusions of the following sectors are coded into our trading systems: Coal and consumables; oil and gas exploration & production; integrated oil & gas; tobacco; distillers & vintners; brewers; casinos & gaming; firearms
Risk Profile	This is a long only equity portfolio investing in a diverse sector of the market – the risk profile is reflective of this. 3 year standard deviation of the fund at February 28, 2018: 12.4%
Benchmark	The BGF New Energy Fund does not have a benchmark
% of carbon reserves avoided	This Fund invests in those companies that are enabling, and benefitting from, the transition to a lower carbon world, which includes manufacturers of solar panels, wind turbines and components for electric vehicles - all carbon intensive processes. Therefore viewing this portfolio through a Scope 1&2 lens does not capture the positive impact that these products are having on our future consumption of energy.
Over what timescale do you intend the fund will become fully fossil free?	Fund has recently (2018) updated the investment constraints to exclude all upstream oil and gas sectors. New exclusions mentioned in the "Exclusion criteria" question.
More information	We believe it is crucial to be selective in gaining exposure to the New Energy sector, particularly given the wholesale disruption that a transition of this nature causes. In our view, this necessitates an actively managed investment approach in order to maximize exposure to those companies that have the ability to deliver sustainable returns, through the cycle.

Other responses:

- P1 Investment Management Limited - We run portfolios of funds
- Rathbone Greenbank Investments - We offer bespoke portfolios rather than funds

8. Appendix 2

Performance of IOCs over last 5 years.

Total return - as of 26 Jan 2018 (GBP basis)	1 YEAR Absolute	3 YEAR Absolute	5 YEAR Absolute	1 YEAR Relative	3 YEAR Relative	5 YEAR Relative
MSCI World (MXWO)	13.36%	50.73%	102.48%	-	-	-
S&P Global Oil Index (SPGOGUP)	1.28%	27.36%	19.27%	-12.08%	-23.37%	-83.21%
BP	13.60%	44.46%	50.71%	0.24%	-6.27%	-51.77%
Chevron	3.86%	45.42%	52.62%	-9.50%	-5.31%	-49.86%
Exxon Mobil	-4.24%	14.73%	26.93%	-17.60%	-36.00%	-75.55%
Royal Dutch Shell	22.94%	40.53%	52.43%	9.58%	-10.20%	-50.05%
Total SA	8.29%	41.07%	62.25%	-5.07%	-9.66%	-40.23%
Eni SpA	9.26%	38.01%	8.02%	-4.10%	-12.72%	-94.46%

Source: Bloomberg

9. Appendix 3

Data from Ceres Shareholder Resolution Database https://www.ceres.org/shareholder resolutions-database

Company	Resolution Summary	Issues	Filler	Status	Year
Anadarko Petroleum Corporation	Publish an assessment of portfolio risks under a 2 degree scenario	Climate Change; Carbon Asset Risk	As You Sow	Filed	2018
Chevron Corporation	Report on Methane Emissions Management	Climate Change; Greenhouse Gas Emissions; Methane Emissions	As You Sow	Filed	2018
Chevron Corporation	Report on Transition to Low Carbon Business Model	Carbon Asset Risk	As You Sow	Filed	2018
Exxon Mobil Corporation	Report on Transition to Low Carbon Business Model	Carbon Asset Risk	As You Sow	Filed	2018
Shell	Set and publish targets that are aligned with the goal of the Paris Climate Agreement	Carbon asset Risk	Follow This	Filed	2018
Valero Energy Corporation	Publish a transition strategy based on a 2 degree scenario	Climate Change; Carbon Asset Risk	Mercy Investment Services, Inc.	Filed	2018
Energen Corp,	Energy Report on Methane Emissions Management	Climate Change; Methane Emissions	Miller/Howard Investments, Inc.	Filed	2018
Kinder Morgan Inc.	Issue a Sustainability Report	Climate Change; Sustainability Reporting	New York State Comptroller	Filed	2018
Noble Energy, Inc.	Publish an assessment of portfolio risks under a 2 degree scenario	Climate Change; Carbon Asset Risk	Presbyterian Church (USA)	Filed	2018
Devon Energy Corporation	Publish an assessment of portfolio risks under a 2 degree scenario	Climate Change; Carbon Asset Risk	The George Gund Foundation	Filed	2018
EOG Resources, Inc.	Report on plan to adopt GHG reduction goals	Climate Change; Greenhouse Gas Emissions	Trillium Asset Management	Filed	2018
Kinder Morgan Inc.	Publish an assessment of portfolio risks under a 2 degree scenario	Climate Change; Carbon Asset Risk	Zevin Asset Management	Filed	2018

10. About us

The Climate Change Collaboration is an initiative of 4 of the Sainsbury Family Charitable Trusts; The Ashden Trust, Mark Leonard Trust, JJ Charitable Trust, and the Tedworth Charitable Trust. This group came together in 2011 to support pilot and research projects to find ways of reducing CO2 emissions quickly.

UKSIF (UK Sustainable Investment and Finance Association) is a membership organisation for those in the finance industry committed to growing sustainable and responsible finance in the UK. Our vision is a fair, inclusive and sustainable financial system that works for the benefit of society and the environment. UKSIF was created in 1991 and has 240+ members and affiliates include financial advisers, institutional and retail fund managers, pension funds, banks, research providers, consultants and NGOs. For more information about UKSIF, please visit www.uksif.org.

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