



The Climate Change
Collaboration

Ashden Trust · JJ Charitable Trust
Mark Leonard Trust · Tedworth Charitable Trust

UKSIF

UK Sustainable Investment
and Finance Association

Oil pressure gauge:

2019 survey of fund managers' attitudes to climate risk
and investment in fossil fuel companies

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Oil pressure gauge:

Survey of fund managers' attitudes to climate risk and investment in fossil fuel companies

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A survey of fund manager attitudes to investment in, and engagement with, Integrated Oil Companies (IOCs).

Providing important analysis for asset managers, investors, regulators, policymakers, and broader society on how the asset management sector is responding to the financial risks associated with climate change.

1. Executive Summary

This is the second UKSIF/Climate Change Collaboration survey of fund manager products and engagement strategies linked to climate change-related financial risk. **It shows a sector moving, but too slowly¹.**

Survey responses show:

There is growing consensus of the threat of climate change-related financial risks to investments in Integrated Oil Companies (IOCs).

- Only two out of 39 fund managers see IOCs that do not respond to climate change-related risk within 10 years as attractive investments. Just under a quarter of all respondents do not see IOCs as attractive on any time horizon and this includes three firms that have no IOC investments
- 68% of 31 respondents see IOCs as attractive investments if they transition to business models aligned with the Paris targets
- 97% reported clients have become more interested in carbon reduction strategies in the last 12 months and 80% of fund managers reported more interest, or significantly more interest, from clients in fossil fuel-free products compared to a year ago

But, when looking at the responses from fund managers to well-known climate change related financial risks, a less consistent position emerges:

- Only 39% of fund managers have a public corporate commitment to achieving the targets laid out in the Paris agreement. 13% have a private commitment and 47% have no commitment
- Only 21% of fund managers have a policy of aligning all the funds they manage with Paris, 33% have a policy of aligning some funds, and 46% have no policy

And with respect to engagement, the process whereby fund managers discuss risk, strategy, and other factors with investee companies on behalf of clients, the responses are concerning:

- Although this year only 12% of fund managers have no engagement strategies in place (compared with 41% last year)...
- ...only 7 fund managers (18%) have set deadlines for engagement objectives to be realised ...
- ...and 57% of managers that hold IOCs, and answered this question, have yet to consider what action to take if engagement objectives are not reached
- 67% said they want companies to reinvest capital, whereas a significant minority (24%) want IOCs to return capital to shareholders
- The process of engagement is not easy. 92% of respondents report sometimes or often feeling frustrated when dealing with the IOCs

Inconsistent approaches by fund managers to their engagement work with IOCs mean that some investors, and probably passive investors or those who are not aware of climate risks, are more exposed to the financial risks of climate change.

There is a strong market trend towards fossil fuel-free strategies, with 80% of managers reporting a clear signal from clients for these. This shows an accelerating trend: last year 71% reported an increase in client interest whereas in 2017, 54% of managers reported an increase. Of 12 managers offering passive funds, 11 said they could offer passive funds that excluded fossil fuels. This is an increase from 6 that said they did, or could, offer such funds last year. This three-year trend coincides with changes in UK trust-based pension regulations and latterly with relevant EU legislative proposals. The evidence suggests that regulatory changes are beginning to have an effect.

¹ We received 39 responses to the survey. Not all respondents answered every question. Data is presented on the most informative basis. Because of rounding, percentages may not total 100.

2. Introduction

This is the second UK Sustainable investment and Finance Association (UKSIF)/Climate Change Collaboration survey of fund manager attitudes to investment in, and engagement with, Integrated Oil Companies (IOCs). It provides important analysis for asset managers, investors, regulators, policymakers, and broader society on how the asset management sector is responding to the financial risks associated with climate change.

Our first survey in 2018 asked fund managers about the products, and investment and engagement strategies, they offered to reduce climate change-related financial risks in portfolios. It also sought their views regarding the timescale of the revaluation of fossil fuel companies because of climate change-related financial risks. This year, the survey included additional questions on the climate change policies and engagement strategies of managers. Managers increasingly say they engage companies on climate change-related financial risks and we wanted to understand what they are seeking to achieve through this engagement.

This year we also invited responses from mainland Europe. 77% of responses came from UK-based fund managers, and the remaining 23% came from France, Spain, and Italy.

UKSIF is the membership association for those UK financial services firms that have a commitment to a fair, inclusive, and sustainable financial system that works for the benefit of society and the environment. The Climate Change Collaboration is an initiative of the Ashden Trust, JJ Charitable Trust, and Mark Leonard Trust. The group was established in 2011 to support projects that help urgently reduce greenhouse gas emissions.

3. Survey Response

39 fund managers completed the survey. They have combined assets under management of \$10.2 trillion. One firm wished to remain anonymous. The others are listed below:

Survey responses were received from:

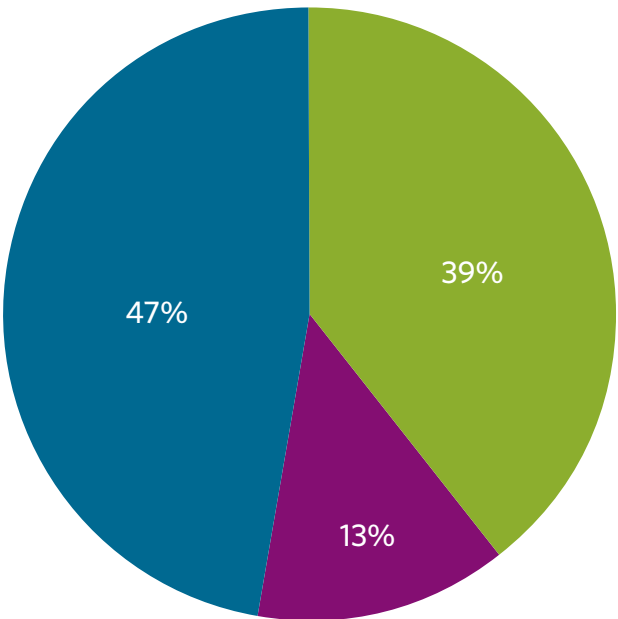
- | | | |
|-----------------------------------|--------------------------------------|-------------------------------------|
| 1. Acadian Asset Management | 14. Evenlode Investments | 27. Neuberger Berman Europe Limited |
| 2. Alquity Investment Management | 15. Generation Investment Management | 28. Newton Investment Management |
| 3. Aviva | 16. Hermes Investment Management | 29. Northern Trust |
| 4. AXA Investment Managers | 17. HSBC Global Asset Management | 30. Osmosis Investment Management |
| 5. Baillie Gifford & Co. | 18. Impax Asset Management LLC | 31. Quilter |
| 6. CAJA INGENIEROS GESTION | 19. Insight | 32. Rathbone Greenbank Investments |
| 7. Candriam | 20. Invesco | 33. RBC Global Asset Management |
| 8. CM-CIC | 21. JAR Capital | 34. Sarasin & Partners |
| 9. COIMA | 22. King and Shaxson | 35. Schroders |
| 10. Columbia Threadneedle | 23. La Française Group | 36. Seguros RGA |
| 11. Ecofi Investissements | 24. LGIM | 37. UBS |
| 12. ESG Portfolio Management GmbH | 25. M&G Investments | 38. WHEB |
| 13. Etica Sgr | 26. Majedie Asset Management | |

4. Survey Content

4.1 Company Policy

Does your business have a public or private commitment to achieving the targets laid out in the Paris Agreement?

- Yes, we have a public policy position to achieve the Paris goals.
- Yes, we have a commitment but it's private
- No, we do not have an organisational commitment



Background: The long-term target in the Paris Agreement on climate change

At the 2015 annual UN climate change talks, known as a ‘Conference of the Parties’ COP, 195 countries negotiated an agreement setting out a global framework for emissions reductions. The ‘Paris Agreement’ commits signatories “to keeping global temperature rise this century to well below 2 degrees Celsius, and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius.” The agreement also contained a commitment that countries would aim for net zero carbon emissions in the second half of this century. These commitments are commonly known as the Paris Agreement’s goals.

The Paris Agreement’s long-term target does not set explicit limits on the permissible amount of global emissions, but a global budget for anthropogenic emissions can be calculated from the desired limits to temperature increases. The IPCC say that meeting the 1.5 degrees Celsius aspiration would require global emissions to reach net zero by around 2050 and negative net emissions for most of the second half of this century. Preventing temperature rises from exceeding 2 degrees Celsius would also require global emissions to reach net zero in the second half of this century.

We wanted to establish if fund management firms had a policy with respect to the goals of the 2015 Paris Agreement on climate change. 52% of respondents do. There was a wide variety of responses. We give examples and comment on some below.

We heard some examples of good policies with clear, time-bound goals:

Our Pledge: We commit to press investee companies to align with the Paris climate goals. We support directors at investee companies materially exposed to climate risks to position their businesses for a net-zero emission world using the following tools:

- Proactive engagement – We initiate and support dialogue with company boards to make clear our expectation for companies to publish Paris-aligned strategies, including measurable mid-term targets
- Voting – We oppose director appointments where individuals are blocking the implementation of a Paris-aligned strategy. We will vote against auditors where we believe the Annual Report and Accounts fail to report material climate risks. We expect real action within three years
- Divestment – We sell a company’s shares where we believe our clients’ capital is at risk and leadership is failing to respond appropriately
- We also commit to promote policy reforms to drive alignment with the Paris goals
- Policy outreach – We engage with regulators and policymakers wherever we believe we can accelerate or improve action to combat climate change
- Public statements – We speak out publicly, and build / support coalitions of like-minded investors and thought-leaders, to drive change where we believe this will be effective

We believe this Pledge is in line with our responsibility to protect and enhance our clients’ capital.

Those that do not have a policy cited a variety of reasons. Some more progressive funds believe they do not need a policy as their strategy focuses on companies which are providing solutions that are enable emissions reductions elsewhere in the economy:

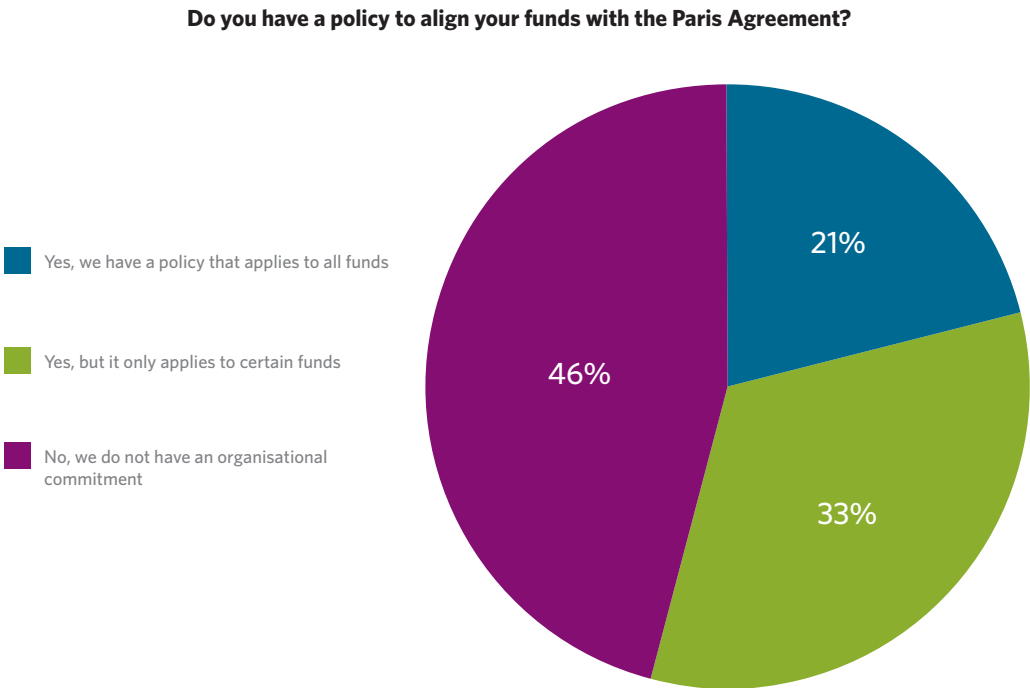
“We are a supporter of the Task Force on Climate-Related Financial Disclosure, and a signatory to the Montreal Pledge, the Climate Action 100+, and We Are Still In. We are also a member of the Investor Network on Climate Risk and other investor groups working to address climate risks in investments. While none of these initiatives specifically commits us to a quantitative target compatible with the Paris Accords, we very much see that agreement as a guideline we should strive to implement in our funds. Our environmental investment strategies are specifically aimed at investing in companies that are providing the solutions necessary for the world to transition to a low-carbon economy that avoids the catastrophic impact of warming of 2°C or more. We also report on the carbon emissions avoided in our environmental strategies. We conduct carbon benchmarks for all our funds for which benchmarking is possible, and report on that publicly. We do have quantitative targets for our Large Cap, ESG Beta Quality, and ESG Beta Dividend Fund that keep carbon intensity for those portfolios to less than 70% of the benchmark.”

Several fund managers referenced their support for the Taskforce on Climate-Related Financial Disclosure (TCFD) in place of a Paris aligned policy. One fund manager told us:

“We are supporters of the TCFD but do not have a formal commitment to be Paris-aligned.”

Some firms have a policy on Paris alignment which is kept private. The reason for this is not immediately clear. It may suggest that firms are underestimating the signalling power that comes with having a public, firm-wide commitment to achieving the Paris goals. We think this signal would be noted by their staff, clients, and society as a whole.

21% of managers have a fund level policy to align all their funds to the Paris agreement, whilst 33% applied policies only to certain funds. 46% had no policy at fund level.



So, whilst a small majority of fund managers have a policy on aligning funds, most of that group (62% of 52%) only align some of their funds. This raises the significant question of why policies relating to the Paris agreement are not applied to all funds when the financial risks of climate change are common to all. We think this split reflects the interplay of client wishes and firm attitudes, with the dynamics varying in each instance. It is perhaps what might be expected with the importance of climate change and the need for engagement being recognised at different rates, on the part of fund managers and clients. It is not impossible that firms applying climate risk policies inconsistently may risk litigation if clients lose out.

4.2 Financial outlook for Integrated Oil Companies (IOCs)

What is your firm’s view of the financial outlook for integrated oil companies (IOCs)?

In this question we sought to establish how investors view IOCs and what they consider to be the most attractive strategy that oil companies should pursue. We prompted with the following suggestions:

- “We see the IOCs as attractive investments on the basis that they remain fossil fuel companies”
- “We see the IOCs as attractive investments on the basis that they transition to business models aligned with Paris Agreement targets and deadlines”
- “We see the IOCs as attractive investments on the basis that they wind down”
- “We are sceptical of the potential for IOCs to provide growth, but we see them as attractive due to their ability to generate consistently high dividends”

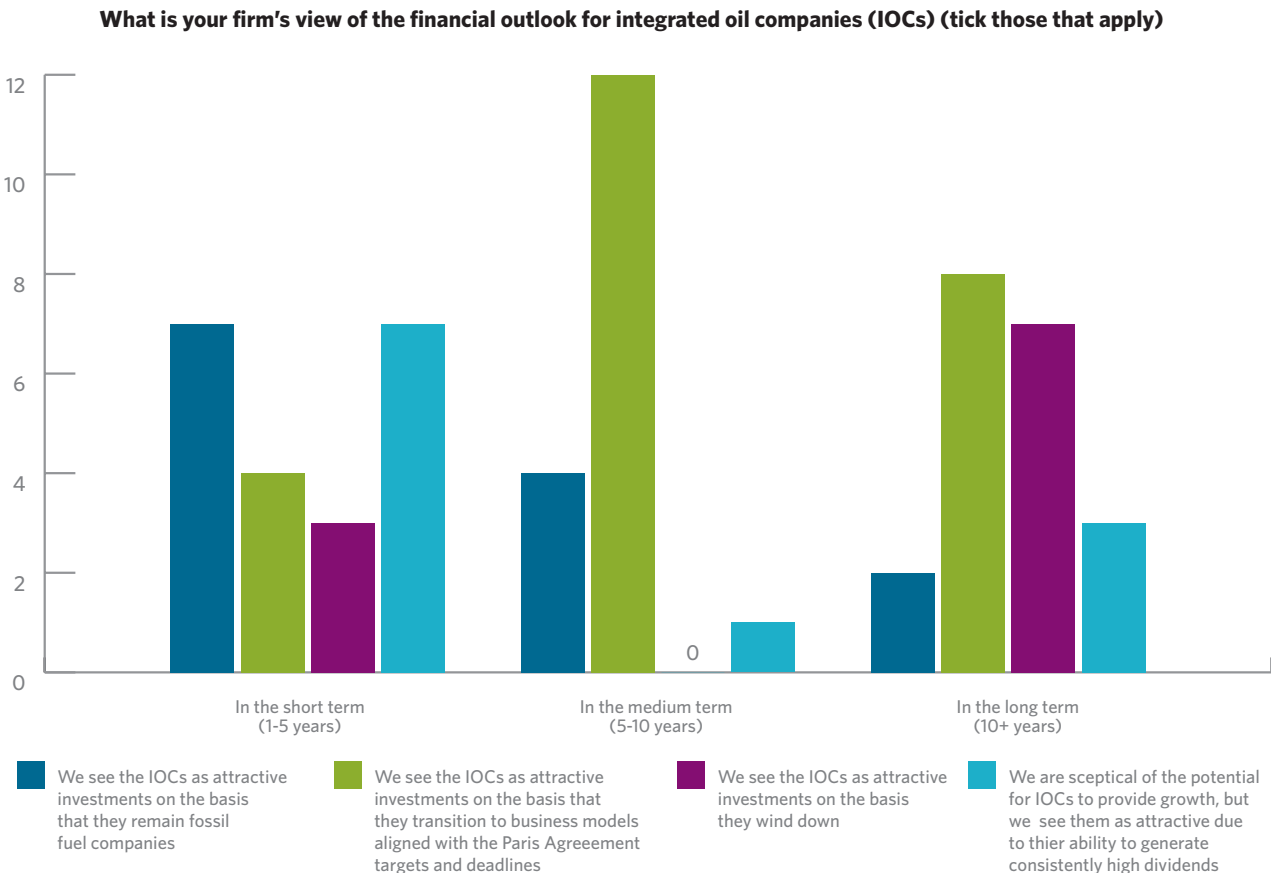
There are a great many variables in this subject, for instance: the starting point of each IOC, the time period over which analysis is considered, and the likely pattern of regulation are all important elements. We are grateful to the fund managers who responded for their thoughtful feedback.

It is clear from the graph below that the investment community is undecided on the future value of IOCs.

We found that IOCs would become increasingly unattractive if they remain as fossil fuel companies. 38% of respondents said IOCs would be attractive as they are on a 1-5 year view; this falls to 18% in 5-10 years, dropping to only 11% on a 10-year plus view.

In contrast, 70% of respondents to this question thought the IOCs would be attractive investments over 5-10 years if they transition to business models aligned with the Paris agreement.

Three fund managers said IOCs could be attractive if they wind down in next five years, and five said this could be attractive, but after 10 years.



We also asked fund managers how attractive they think IOCs are on a range of scenarios over any timescale. The data are shown below.

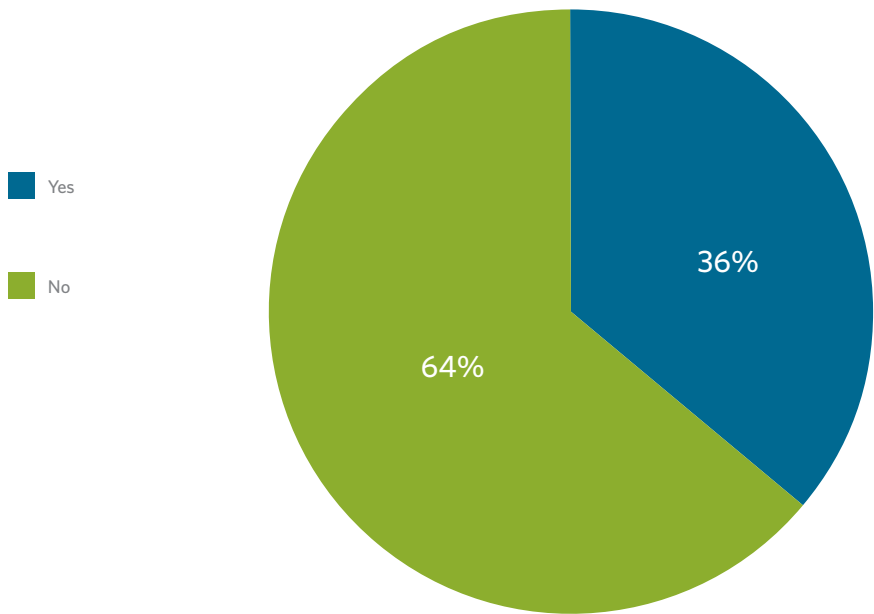
Only one strategy - that in the second row down, "aligning to Paris" - attracted a majority of support.

For the other three strategies, broadly 50% of respondents to the question said the IOCs were not attractive on any time horizon. Said 50% of respondents to this question equates to approximately a quarter of all respondents to the survey.

Scenario	No. of FMs agreeing on any time horizon	No. of FMs saying the IOCs were unattractive on this strategy over any time horizon	% of respondents saying IOCs are unattractive on the strategy over any time horizon
We see the IOCs as attractive investments on the basis they remain fossil fuel companies	13	13	50
We see the IOCs as attractive investments on the basis they transition to business models aligned with the Paris Agreement targets and deadlines	24	9	27
We see the IOCs as attractive investments on the basis they wind down	8	13	62
We are sceptical of the potential for IOCs to provide growth, but we see them as attractive due to their ability to generate consistently high dividends	11	12	52

4.3 Systemic barriers to innovation

For any of your funds, do you feel a “systemic” factor such as client requirements or expectations to benchmark performance against market capitalisation indices or to maintain a specified tracking error against such indices limits constrains your ability



In the past, systemic factors such as being judged against benchmarks have been cited as a reason for slow changes in investment methods. We asked fund managers whether is a systemic factor preventing them taking action they wanted. 36% of fund managers said there is. Of those that do face systemic barriers, 22% are discussing using different benchmarks with clients, and three are engaging with index providers to remove companies from indices. But there is still an issue with benchmarks. A typical comment was:

“As long as benchmarks will be market cap-weighted, our best strategy is to engage with IOCs so that they initiate their transition, but also to be vocal about the need to change the way current indices are constructed.”

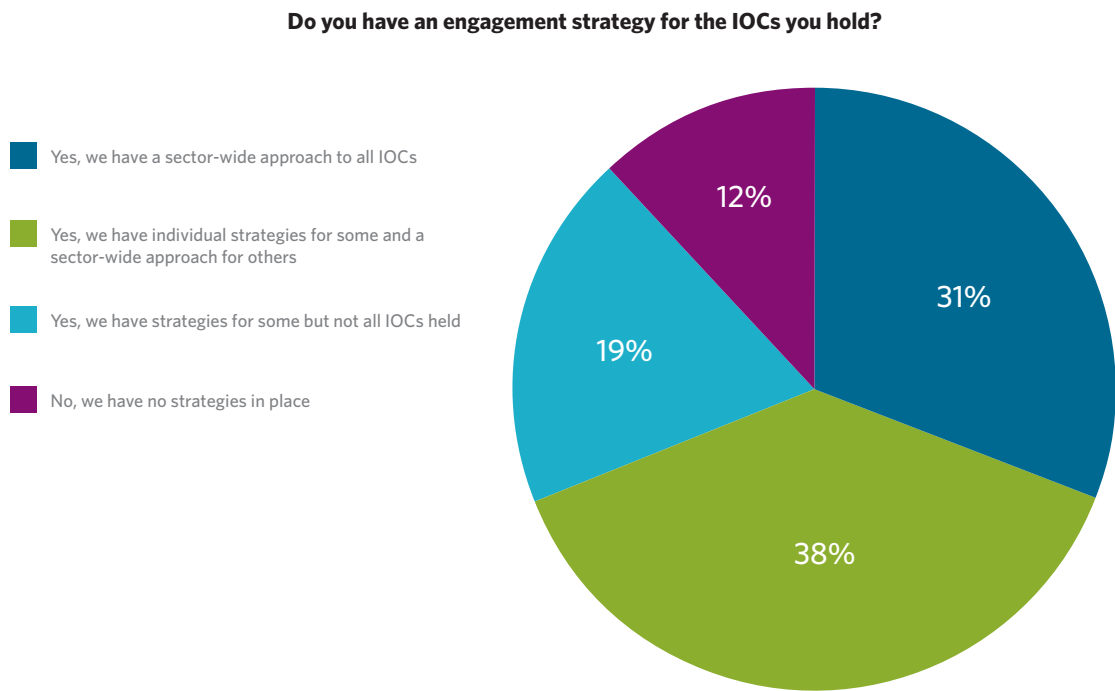
Managers of actively-managed funds, who have more freedom to deviate from indices, emphasised their need for asset owners to mandate them to shift away from mainstream benchmarks. Many active managers stressed how they were seeking to use their risk budgets to mitigate climate risks, and were becoming “benchmark agnostic”.

4.4 Engagement strategy

Engagement is increasingly recognised as a key responsibility of asset owners and fund managers, and this is now being reflected in regulation. In response to the Shareholder Rights Directive II, the FCA is proposing to introduce new handbook rules for fund managers that would require them, on a comply-or-explain basis, to state an engagement policy, which should include how the manager:

- monitors investee companies on relevant matters, which are further detailed as:
 - strategy
 - financial and non-financial performance and risk
 - capital structure
 - social and environmental impact
 - corporate governance
- engages in dialogue with companies it invests in
- exercises voting rights and other rights attached to shares

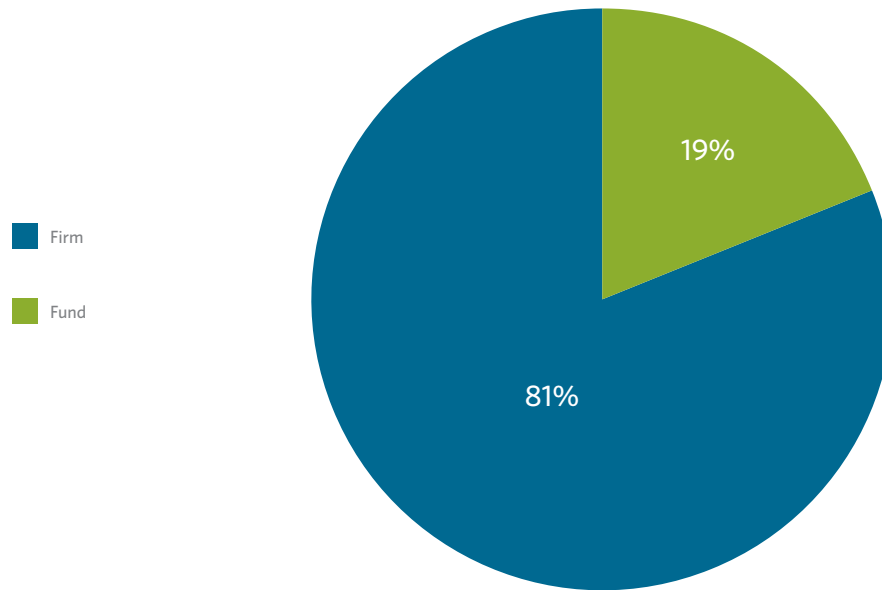
To explore how fund managers are fulfilling their engagement and stewardship responsibilities, we asked a series of questions on how they work with IOCs.



88% of fund managers told us they have an engagement strategy for some or all of the IOCs they hold. 69% either have a sector-wide approach or individual strategies for some IOCs, complimented by a sector-wide approach for others. Only 12% of fund managers have no strategies, down from 41% in last year’s survey.

² Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement

Are these strategies pursued at the firm level, i.e. in respect of all assets of the IOC held in multiple funds/accounts, or at the fund level i.e. in respect of a proportion of relevant assets managed by the firm?



We asked whether engagement strategies are pursued at the firm level or at the fund level. 81% of respondents said they are pursued at the firm level. This would seem the most practical and sensible way of carrying out such work, with the fund manager speaking on behalf of all the shares they own.

What are the engagement strategies?

What is your engagement strategy for the IOC sector as a whole?

We sought to offer fund managers the chance to outline their engagement strategy for the IOC sector as a whole. Again, this is an enormously wide area and we are attempting to simplify complicated issues. First, we gave three options, aligning with a target of 1.5C, aligning with the Paris target of 2C, or that the IOC should maximise cash generation irrespective of climate factors. We then offered further options of the use for capital generated:

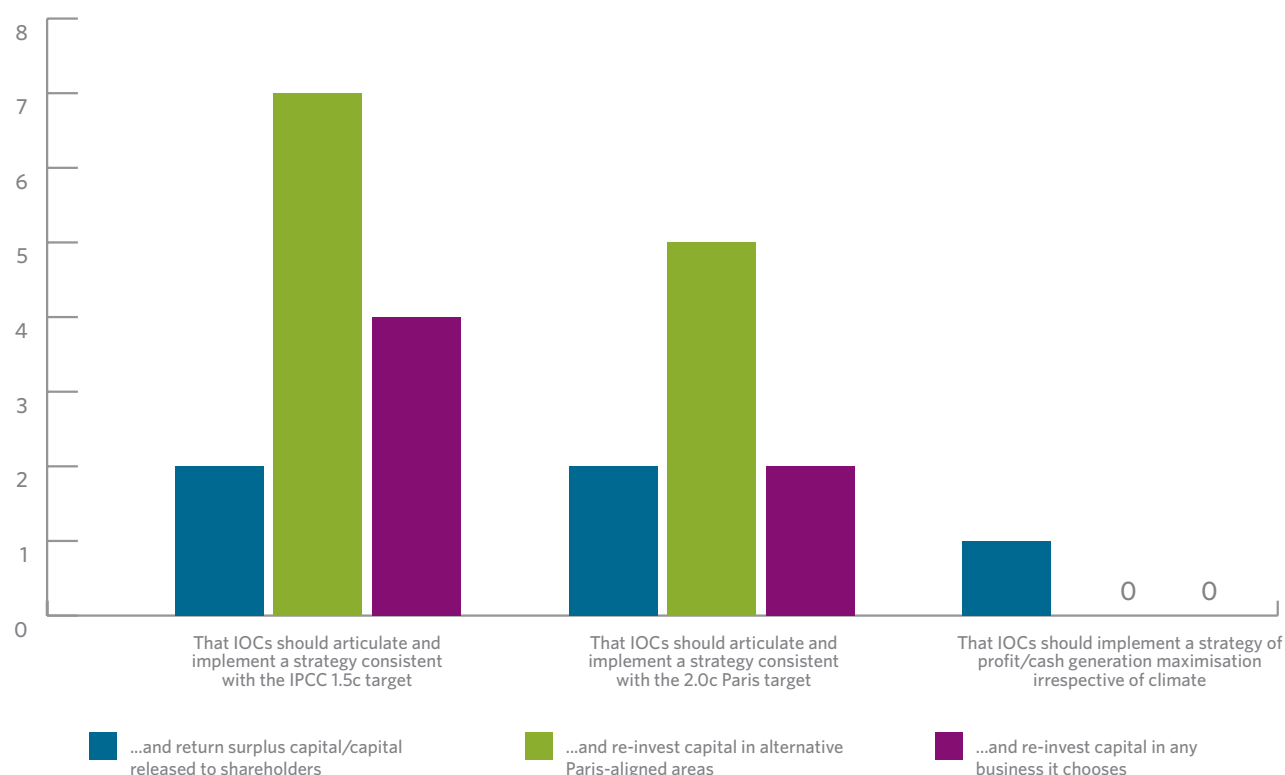
- returning surplus capital to shareholders
- reinvesting capital in alternative Paris-aligned areas
- reinvesting capital in any business the IOC chose.

86% of fund managers chose combinations saying that companies should align with Paris. The most common engagement strategy, shared by 67% of respondents, was that IOCs should articulate and implement a strategy consistent with Paris, and reinvest capital in Paris-aligned areas.

There was a notable division in responses as to whether the target for climate change should be 1.5°C or 2°C. 48% said 1.5°C, 43% said 2°C. This shows the importance of the International Energy Agency (IEA) and other forecasters providing models to help investors assess these scenarios.

24% said they want companies to return capital to shareholders rather than reinvest it in alternative areas. This was a slight drop from last year's survey where 29% favoured this approach.

What is your engagement strategy for the IOC sector as a whole? (please select one option)



What deadlines do you have for IOCs to meet your targets?

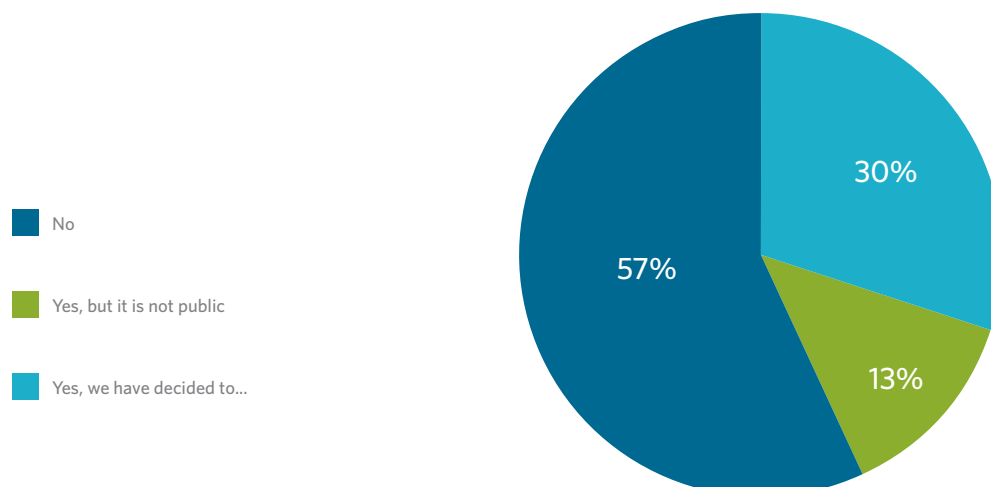
We asked fund managers what deadlines they have for IOCs to meet the targets in their engagement strategies.

Only 18% of respondents have set a deadline for any companies, and there is considerable variation.

Deadline to meet targets	2021	2023	2025	2030
Fund managers	2	2	1	2

We were surprised at this low number. It contrasts with the 2023 deadline set by Climate Action 100+, a leading investor initiative which aims to ensure the world's largest corporate greenhouse gas emitters take action on climate change, and the emphasis placed on this date by leading asset owners such as the Church of England. We would therefore expect more managers to embed this deadline into their strategy. Several managers mentioned they have dates for specific engagement asks to be met, but that they would envisage continuing to hold companies indefinitely.

Have you decided what action to take if an IOC does not meet your targets by the deadlines set and what it is?



Have you decided what action to take if an IOC does not meet your targets by the deadlines set and what is it?

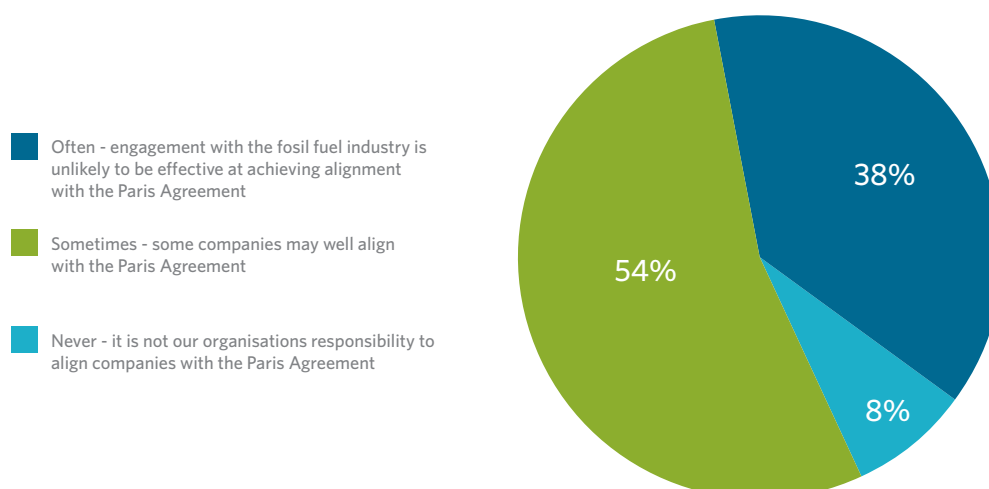
We asked what action fund managers had decided to take if an IOC does not meet targets by the deadline set.

57% of respondents have no plans to take action if engagement goals are not met. Whilst a few firms have set deadlines - and as far as we are aware no deadlines have yet been breached - it is surprising that contingency plans in the event of failure are not in place. This potentially weakens the influence of fund managers.

Of the small number that said what action they would take, 71% said they would divest.

The challenges presented by climate change to IOCs and fund managers may well be unprecedented in terms of their breadth, scale, and difficulty. To examine some aspects of this, we asked fund managers whether they had ever felt frustrated by the lack of ambition or progress in an engagement with a fossil fuel company. 54% said they sometimes felt frustrated, and 38% said they were often frustrated.

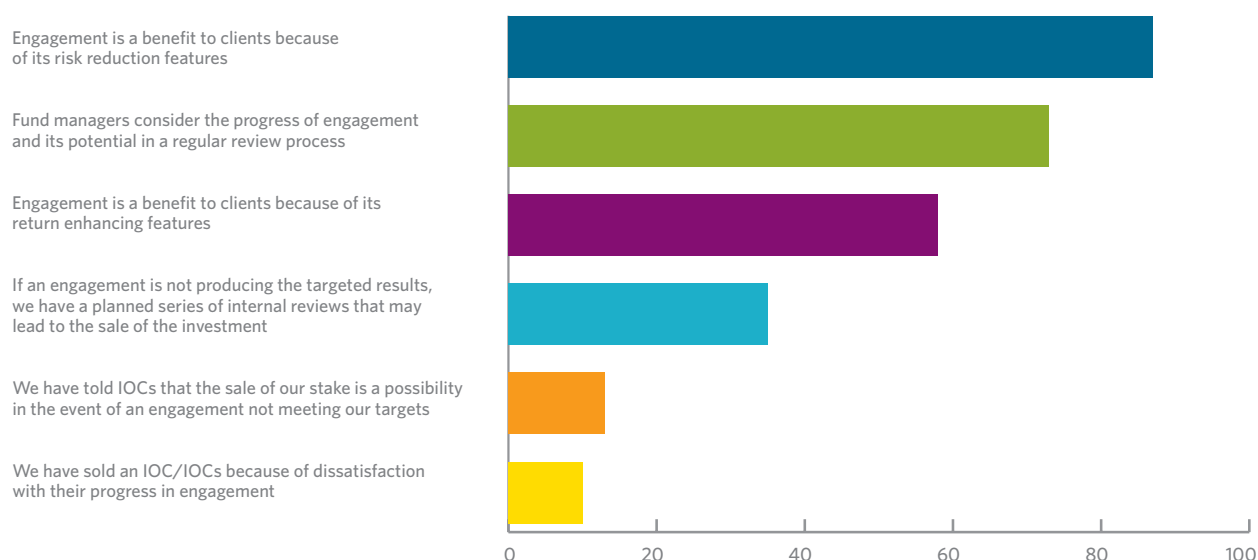
When seeking to achieve the goals of the Paris Agreement, have you ever felt frustrated by the lack of ambition or progress in an engagement with a fossil fuel company



That 92% of respondents "often" or "sometimes" feel frustration may indicate the difficulty of the work being undertaken.

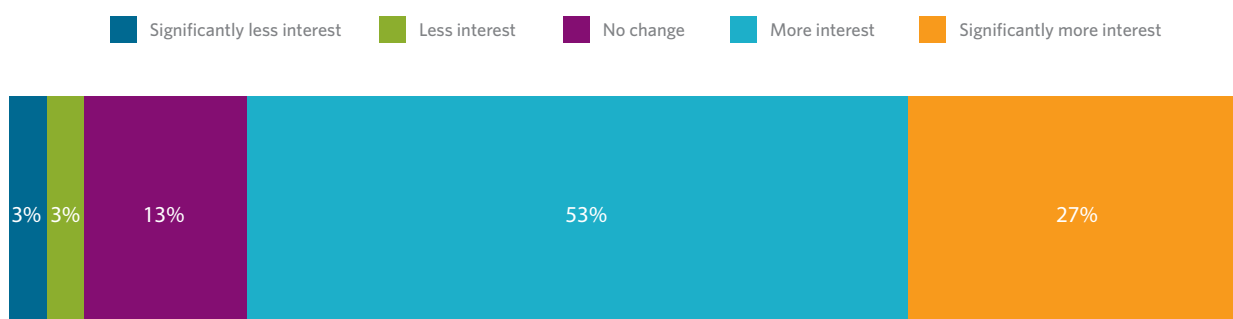
We asked active fund managers about various aspects of engagement, with the results shown below. 87% of managers think engagement is of benefit because of its risk-reduction impact; 58% of managers thought it benefited clients because of its return-enhancing aspects. Encouragingly, 74% of fund managers consider the progress of engagement and its potential in a regular review process.

Active managers view on engagement (% of responders choosing each option)



All passive managers said they are exploring ways to reduce exposure to companies involved in fossil fuel extraction but have not yet decided on a strategy. Two passive managers are in the process of excluding coal from all their funds.

Client interest in fossil fuel strategies has grown over the last 12 months



4.5 Engagement strategy

We asked fund managers about the change in client demand over the past 12 months. 80% of managers reported a growth in client interest in fossil fuel-free strategies. In response to this demand, managers report a slight growth in the proportion of funds they offer which are low-carbon.

Eleven fund managers of passive funds said they could offer passive funds that excluded fossil fuels or (separately) funds which tilted away from them. Two others said they could only offer a tilted fund. Only one passive manager said they would not offer either, on the grounds they thought it would not add value. Three managers would use a custom benchmark to address potential tracking error issues.

The reported growth in client demand reflects growing concerns across society on the impacts and risks of climate change, and would seem likely to increase over the coming years. What the authors are seeing in their work is perhaps not a surprise against the background of growing regulatory developments in the UK and the European Union.

5. Conclusion

The data in this report leads to three conclusions:

From an asset owner perspective, the key data in this report refer to the risks of investment in IOCs as seen by fund managers:

- Only two out of 39 fund managers see IOCs that do not respond to climate change-related risk as attractive investments
- Just under a third of respondents do not see IOCs as attractive investments on any time horizon. This includes three respondents that have no IOC investments
- 68% of respondents see IOCs as attractive investments if they transition to business models aligned with the Paris targets

88% of fund managers say they are engaging with investee companies as a method to mitigate climate-related risks. However, the effectiveness of this engagement is somewhat undermined because a majority of firms do not specify what they want to achieve through the engagement. Or, if they do have goals, they do not outline any action if the goals are not met. Our data show:

- Few deadlines have been set (just seven firms told us they have set deadlines) and
- 57% of respondents that hold IOCs have yet to consider what action to take if engagement objectives are not reached.

This year, slightly fewer firms cited winding down IOCs as a goal for engagement. This is an unexpected result considering that the IPCC³ found that global carbon emissions need to decline by 25-45% over the next decade, requiring a large scale shift away from fossil fuels, to achieve the Paris goals. This analysis is supported by the Transition Pathway Initiative, a global initiative led by asset owners which assesses companies' preparedness for the transition to a low-carbon economy, and other analysts including JP Morgan. A lack of calls for wind down may be attributable to the increasing efforts made by the major IOCs to improve their public image through PR announcing renewable energy investments, even though these are a very small proportion of their CAPEX.

There is a role for investor coalitions, such as IIGCC and Climate Action 100+, to use their position to help managers set company-wide policies with time-bound goals for engagement that are consistent with achieving the Paris Agreement. Some investors, including the Church Commissioners, have already done this.

It is important that engagement goals and deadlines are consistent within and across firms. The lack of coherence within the fund management community on this undermines efforts to mitigate climate-related risk.

In terms of the consequences of IOCs not meeting deadlines, some managers have already said that they have divested, and comments made by respondents show others are talking of it. A recognition that IOCs which are not actively transitioning to reflect climate-related risks are a poor investment, to which divestment is the appropriate investment response, needs to spread throughout the fund management community, as well as the IOCs themselves.

On a more encouraging note, only a third of fund managers see systemic barriers holding them back. Being judged against mainstream capitalisation-weighted benchmarks was the key issue cited by this group. Several routes forward were identified:

- educating clients as to the implications of benchmarks
- creating alternative indices, either in-house or by working with index providers, and
- the better use of risk budgets on the part of active managers.

We think the onus is on asset managers – usually much more expert than their asset owner clients – to help their clients understand and act on this risk. Equally, owners should be more vocal in amending their mandates, and encouraging others to do the same.

Indeed, it is positive to see client interest in fossil fuel-free strategies continuing to grow, with 80% of managers reporting a clear increase in interest. Mirroring this, the proportion of funds offered by managers that mitigate the risks from fossil fuels is also increasing.

³ IPCC, 2018: Summary for Policymakers. In: Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty [Masson-Delmotte, V., P. Zhai, H.-O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J.B.R. Matthews, Y. Chen, X. Zhou, M.I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, and T. Waterfield (eds.)]. World Meteorological Organization, Geneva, Switzerland, paragraph C1.

6. Recommendations

6.1 Asset managers

- The last 12 months have seen accelerated growth in demand for fossil fuel-free strategies, but the supply of investment products has grown more slowly. Asset managers should consider whether they can better respond to clients' changing needs
- With the risks posed by climate change and to IOCs in particular, asset managers need to ensure as many clients as possible are protected, and should actively consider applying firm-wide climate policies consistently across all of the portfolios they manage. It's possible that firms applying climate-related risk policies inconsistently may risk litigation if clients lose out
- In their engagement work with IOCs, fund managers should consider and articulate the strategy and the target dates/deadlines
- Fund managers should consider their actions if deadlines are not met
- Even where fund managers have a privately-held belief that their investment strategies should be, or are, Paris-aligned, it is worth stating this publicly to help signal to the rest of the finance community, and broader society, that this is an essential aim. It also inspires confidence that it is achievable.

6.2 Asset owners

Asset owners should note that not all fund managers are the same in respect of climate risk policies and engagement strategies. This report shows the need (again) for owners to ensure they understand what their fund manager is doing on their behalf. Against the background of changes to regulation for trust-based pension schemes, we think owners should:

- Ask their fund manager to discuss the implications of these findings at their next meeting
- Support their managers in making specific "asks" of IOCs that go beyond disclosure, and which consider their future business strategy
- Mandate managers to sell their holdings if companies do not change by a set deadline, since the majority view of the managers in this report is that "unchanged" IOCs are likely to be unattractive investments. Some managers have set deadlines starting in 2021
- Work with managers and index providers to move away from traditional benchmarks and indices that do not reflect the emerging low-carbon economy.

6.3 Index providers

Index innovation is happening, but not fast enough. Index providers have a key role to play in addressing barriers to climate-mitigating investment strategies. Large passive managers, who have been most constrained by this issue, are starting to develop their own capabilities in this area, sending a strong signal to the index sector to act. Specifically, they need to:

- Educate and encourage investors to move to low-carbon indices and benchmarks
- Remove fossil fuel companies from their indices

6.4 Investor climate coalitions

Inconsistent approaches to engagement within the fund management sector undermine efforts to mitigate climate risk. Investor coalitions should support fund managers to develop consistent engagement goals, deadlines, and actions, if IOCS do not meet the deadlines. Regular outcomes reporting to stakeholders should be provided too.

Asset owners should note that not all fund managers are the same in respect of climate risk policies and engagement strategies.

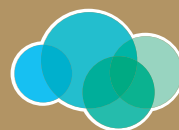
With the risks posed by climate change and to IOCs in particular, asset managers need to ensure as many clients as possible are protected, and should actively consider applying firm-wide climate policies consistently across all of the portfolios they manage.

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