The Climate Change Collaboration
Ashden Trust · JJ Charitable Trust
Mark Leonard Trust · Tedworth Charitable Trust

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UKSIF
UK Sustainable Investment and Finance Association

Energy transition risk will dent oil company valuations within 5 years, predict 89% of fund managers

PRESS RELEASE – London, 25. April 2018 - Less than one year after the One Planet Summit in Paris and release of global TCFD climate disclosure recommendations, the share of fund managers that expect oil company valuations to drop as a result of energy transition risks has nearly doubled to 89%, up from 46% in 2017. One third of the asset managers say they are already seeing transition risk impact today, according to a new report by UKSIF and the Climate Change Collaboration. The report is based on a survey of 30 fund managers on the impacts from climate-related risks on the valuation of Integrated Oil Companies (IOCs) and is being launched today at the London Stock Exchange for Ownership Day organised by UKSIF and hosted by FTSE Russell.

The headline findings of the report are summarised below:

- 89% of managers agreed that energy transition risk – such as increasing regulation around emission levels - will significantly impact the valuations of the IOCs in the next 5 years, compared to 46% when the survey was conducted in 2017.
- 90% of fund managers expect at least one risk, for example litigation or regulatory change - to 'significantly' impact the valuation of Integrated Oil Companies (IOCs) within 2 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.
- The number of managers who see litigation over climate-related risk as likely to impact IOCs within the next 5 years has doubled in past year.
- 71% have not decided if any IOCs are likely to make a transition to a zero-carbon economy.
- 41% of fund managers do not have strategies to engage on the issue. Of those that do, few are aligned on goals.

Diandra Soobiah, Head of Responsible Investment, NEST Corporation, said:

"Climate related risk is one of the biggest trends affecting investors today and will impact the pension pots of millions of workers. It's vital that pension savers have low cost, high quality options for mitigating climate risk in their portfolios. That means that trustees need access to passive or systematic indexes that take account of how companies are preparing for a low carbon future and can engage with those that aren't doing enough to adjust. There are some asset managers leading the way on this. Clearly this research shows that more can be done."

Faith Ward, Chief Responsible Investment Officer, Brunel Pension Partnership.

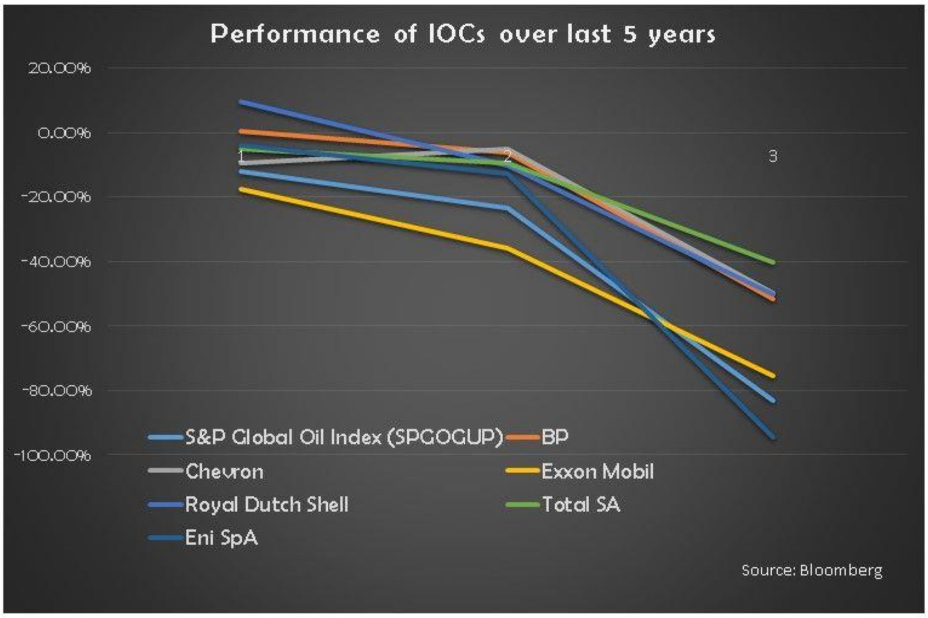
"At Brunel we view engagement as critical in managing material financial risks in holding oil and gas companies. We therefore strongly recommend all asset owners ask their fund managers to have (and share with them) a clear plan of engagement and report progress. At Brunel Pension Partnership we are using The Transition Pathway Initiative to set our engagement priorities and report progress to clients."

The survey also listed investment products being offered to address climate-related risks. It shows an increase in offering since last year, but the focus remains overwhelmingly on actively managed products 17 managers are providing equity products as opposed to passive (5 managers are offering passive products). The main barrier to creating new products cited by the fund managers is lack of client demand, despite 71% seeing growing interest in the last year.

The lack of climate resilient passive product being offered has worrying implications for hundreds of thousands of pension savers since many defined contribution schemes use passive funds.

The report's authors identify clear recommendations for the finance sector. These include that:

- Fund managers should develop products, including active and passive fossil free products, to manage and mitigate climate -related financial risks and access opportunities from the transition.
- Asset Owners should assess the climate -related risk of investments, review and agree the options to manage these risks, and request new or amended climate resilient products.



Vicki Bakhshi, Director, Governance & Sustainable Investment at BMO Global Asset Management, commented:

"There is a widening gap between International Oil Companies that are being proactive in making plans for energy transition risks and those still stuck on a business as usual trajectory. We believe investor engagement is more important than ever to close the gap, and this is something we do extensive work on for our clients at BMO Global Asset Management. We also recognise that some clients would prefer to avoid the sector altogether in their investment portfolios. For that reason, we offer a range of equity and bond funds – our Responsible Funds range – that have committed to divest fossil fuel producers"

Simon Howard, Chief Executive, UKSIF, said:

"This report shows how fund managers, the experts on whom millions of savers rely, see the climate-related risks to share prices. Over half of the mangers think climate risk is already a factor affecting share prices and they see more risks crystallising in the short term. It is imperative that owners start to act to protect their investments now. More needs to be done in sector engagement with companies and product development. It's right that these issues are being debated in the UK, a leading market for responsible investment."

Sian Ferguson, Trust Executive, Sainsbury Family Charitable Trusts

"It is positive to see that more and more fund managers are providing products which exclude fossil fuels. It's time that the rest of the fund management sector followed suit. The risks facing fossil fuel companies are severe. Fossil fuel free investing is the safest route for asset owners."

The report and its recommendations can be found here.

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Background

This is the second annual survey of UK fund managers on climate risk run by The Climate Change Collaboration.

This year UKSIF have partnered to help track changes in thinking over the past year.

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.