The Green Light Campaign

Using pension power to protect our planet

ShareAction
the movement for Responsible Investment

green light
Protecting Pensions + Planet

About ShareAction

ShareAction, a registered charity, is building a movement for responsible investment. We are the UK's leading civil society organisation promoting an investment system that serves savers, society and the enviroment. The billions of pounds in our pensions mean that pension funds have a stake in UK businesses and this gives them an enormous influence over corporate behaviour.

We bring together leading charities, trade unions, faith groups and individual investors to create change, and work with government to make the investment industry more accountable to savers by removing the barriers to responsible investment. In 2013 we were named as one of the Observer's Brand New Radicals and have twice been highly commended by the Charity Awards, once in 2010 and again in 2012 for our work on the Living Wage.

Fairshare Educational Foundation (ShareAction) is a company limited by guarantee registered in England and Wales number 05013662 (registered address Ground Floor, 16 Crucifix Lane, London, SE1 3JW) and aregistered charity number 1117244.

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Disclaimer

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Introduction

> “It’s time for a new tactic, one that focuses on the power players that operate behind the scenes.”

If you’re reading this report, you probably care about protecting our planet from climate change. You probably know that earlier this year, we hit 400 parts per million of carbon in the atmosphere[1], and that if we continue pumping carbon out at our current rate, we’re likely to live in a 4 degrees warmer world by the end of the century.[2] That’s a world ravaged by extreme weather events, where low-lying regions are flooded and developing countries are hit hardest. It’s a future in which high polluting companies swing from profit to loss and business as usual can’t survive. Put simply, it’s a world in which the certainties of the past can no longer predict the future. To prevent this vision becoming reality, we urgently need committed action from governments and green, clean strategies from business. Traditional campaigning tactics have yet to achieve either, and as our leaders in politics and in business fail to act in the best interests of our planet, we must take up the fight ourselves. It’s time for a new tactic, one that focuses on the power players that operate behind the scenes. Their decisions shape the health and nature of our economy, and by extension, our planet. Millions of us have a stake in how they behave, and yet few of us realise it. The Green Light campaign aims to change that; it aims to bring these power players into the spotlight and demand systemic change, kickstarting our transition to a greener, fairer world.

A new frontier in the battle to protect our planet

Pension funds are these vital power players. With £3tn[3] invested in them by pension savers, which is in turn invested in the services and businesses which make up our economy, they are a crucial but under-recognised lever for change. Their purpose is to provide a retirement income for their members in the future, and as such, they should be making their investment decisions with a long-term view. The introduction of pensions automatic enrolment will see millions more employees signed up to saving over the coming years. Many of these newly enrolled savers will be younger people who will not begin to draw their pensions for many decades to come. In order to fulfil their legal obligation to act in the best interests of these savers, pension funds must take into account the environmental impact that the investment decisions of today will have on the climate of the future. This mandate to act with the consideration of savers’ future wellbeing, along with the clout pension funds wield with big business and policymakers, makes them perfectly placed to catalyse the shift to a low carbon future.

Endangering our planet and our pensions

Despite this, our pension funds currently remain deeply and stubbornly invested in fossil fuels. They are wary of putting money into greener, cleaner investments. And it's not only our planet that this strategy endangers, but our pension pots too: if governments act to limit global warming to 2 degrees, as agreed in the 2010 Cancun Agreement, carbon emissions will be capped at a level that would rule out many of the high carbon projects that companies are currently embarking on. These projects would become 'stranded assets', moving swiftly from profit to loss and dragging down the value of our pension pots in the process. Some pensions professionals argue that governments won't act, and as such, this 'stranded assets' hypothesis won't happen. But inaction by governments will mean unchecked global warming, bringing its own set of problems which will certainly impact our pensions, not to mention our future quality of life. Whichever scenario plays out, our pension funds need to get climate-conscious if they are to act in the best interests of those who save with them.

"These projects would become 'stranded assets', moving swiftly from profit to loss and dragging down the value of our pension pots in the process."

Taking climate to the capital markets

That's why this campaign is needed: we must demand that our pension funds make investment decisions that protect our pensions and our planet. The £3tn invested in them must be harnessed to encourage clean energy, green infrastructure, and to embed climate-awareness in company plans and government policies.

Targeting campaigning energy at the investment community has a proven track record of success. Since its inception in 2005, ShareAction* has used this method to effect change on a range of social and environmental issues, including the Living Wage and Arctic drilling (see box overleaf). By raising awareness in pension funds about these topics, backed up with detailed research and robust arguments, we've encouraged them to hold companies to account on issues that matter. We also run regular e-actions, enabling savers to email their pension funds at the click of a mouse on topics of concern, pushing their pension funds to take investment decisions that better reflect the values of those who have entrusted their savings with them. It's not that pension funds don't care; they're often receptive to savers' and civil society's concerns. But they have many competing priorities, and the onus is on us as concerned citizen savers to ensure they're addressing neglected risks like climate change.

* We were formed as FairPensions, changing our name to ShareAction in March 2013.

Capital Markets Campaigning: an effective tool for change

We provide pension funds, and the investment managers they hire, with detailed information about major environmental and social risks faced by companies today. We undertake detailed research into these issues and provide clear, evidence-based arguments for corporate behaviour change. Investors then use these tools to hold companies to account on their behaviour, and to promote change.

Living Wages

ShareAction, in partnership with Citizens UK, has worked to bring Living Wage standards to the FTSE 100. The Living Wage is calculated as the minimum hourly pay necessary for housing, food and other basic needs for an individual and their family. The rates take into account the real costs of living and are based on Minimum Income Standards methodology. Through shareholder activism, including attending company Annual General Meetings and sign-on letters to company boards from major investors (including pension schemes), nearly 10,000 more employees today earn a Living Wage.

Arctic Drilling

ShareAction, in partnership with Greenpeace UK and Platform, has worked to raise institutional investor awareness of the risks inherent in Royal Dutch Shell's plans to drill for oil in the Arctic. By providing investors with detailed research demonstrating the significant problems with Shell's plans, we were able to highlight the potential for 'another Deepwater Horizon'. Our predictions of setbacks, including inadequate spill response technology, became reality throughout 2012's drilling season when Shell was forced to abandon its plans due to a roll-call of failings.[4] Due to these setbacks and concerns raised by investors, Shell pulled back from the Arctic and did not re-enter it in 2013.

> "... we want a healthy retirement income, but we also need a healthy planet to retire on."

Harnessing the power of pensions

As pension savers, we want a healthy retirement income, but we also need a healthy planet to retire on. The money we save into our pensions is invested, and at the moment, it's being invested without taking climate change into account. Public opinion tends to characterise the average citizen saver as a bystander, watching helplessly as the money markets make decisions with little accountability or transparency. But what many pension savers don't realise is that we can have an active voice in where our savings go and how the businesses they fund are run. The Green Light campaign recognises this under-appreciated fact and seeks to empower people to see their savings as an arena for the expression of climate concern. Over the next two years, together with a broad-based coalition of civil society organisations and the help of citizen savers across the country, we'll be catalysing a shift towards a fairer, greener future. We'll be running online e-actions, trainings on how to get involved, providing ongoing and tailored support to our activists, and much, much more.

It's time to turn the spotlight on pension funds

The remainder of this report outlines the Green Light campaign's 5 key demands for pension funds, as below. For more detailed information on each of our demands and the interplay between climate change and pension fund investments as a whole, please see our alternative investor-focused report, *The Green Light Report: resilient portfolios in an uncertain world.*[5]

- **Disclose:** we want pension funds to measure their portfolios' carbon emissions, to devise an appropriate climate change policy on the basis of their findings, to set time bound targets, and to disclose what they're doing about climate change to their savers.

- **Disrupt:** we want pension funds to question companies' plans to embark on risky, high emissions projects like Arctic drilling and tar sands. Money is being poured into exploration for new reserves of oil and gas, but if governments act to cap carbon emissions, these reserves will become 'unburnable'. This money would be better off being returned to shareholders or spent on less risky projects.

- **Divest:** we want pension funds to pull out of companies whose sole business is thermal coal. We believe that these companies are unlikely to perform well in the future, and therefore serve neither pensions nor planet.

- **Divert:** we want our pension funds to commit to making greener investments. This means diverting money into a range of climate solutions, including clean technology, green infrastructure, and energy efficiency. We want them to set an internal target stating what portion of their investments they intend to allocate to greener options.

- **Demand:** we want pension funds to demand stable and supportive policy from governments to enable the transition to a low carbon global economy. We want them to join, encourage and support collaborative investor initiatives, and demand more transparency from companies on their own climate-related lobbying positions, which may act against the interests of pension savers.

This is a different kind of climate campaign. Its focus on pension funds will unlock the power of the trillions invested in them to fund a greener, fairer future. In doing so, we aim to protect our pensions and our planet. We hope you'll join with us, as citizen saver or civil society organisation, as we push our pension funds to get climate-conscious.

> "...what many pension savers don't realise is that we can have an active voice in where our savings go and how the businesses they fund are run."

1. Disclose

If pension funds are going to start taking climate change seriously and allow it to influence investment decision-making, first they need to examine their current investments and assess the environmental impact they're already having. Only once they understand their starting point can they devise a smart action plan for the future. In order to make this assessment, they'll need to have the right governance structures in place, which simply means the right people with the right knowledge working from the right policies.

As such, we have identified a series of internal actions for pension funds to assess and manage their exposure to climate-related risks. These risks include physical risks (e.g. extreme weather events, rising sea levels), regulatory risks (such as a cap on the amount of carbon emissions a company is allowed to make), and the risk of losing money by sticking to 'business as usual' and consequently, failing to invest in greener opportunities that may be financially successful in the future. We aren't suggesting that every pension fund must undertake every step in this chapter; different steps will be better suited to different funds. But these recommendations are all achievable; indeed, some forward-thinking funds have already undertaken several of them.

Trustee training

The science behind climate change and the risks it brings are still relatively unfamiliar to pension funds. Trustees, who are often just ordinary members of the pension fund with little or no investment expertise, are likely to need training to build their understanding of what climate change means for their pension fund and what actions are appropriate to take.

Ask 1: Trustees and pension fund officers with a responsibility for investment matters should undertake a minimum of 2 hours training on the financial and environmental risks of climate change.

Training might be delivered online, to a particular trustee board or its investment committee, or be undertaken jointly with other pension funds. We believe this last option is particularly valuable: collaboration between funds will encourage knowledge-sharing and spread any costs incurred. Some funds have already begun to address climate change, and these funds in particular should share their experiences with others in the industry.

Ask 2: Pension schemes with experience of addressing climate change should share their knowledge and insights with peers.

Investment beliefs

Over the last few years, a growing number of pension funds have taken the time to identify and define their 'investment beliefs'.[6] These beliefs guide decisions about how to manage savers' money. They are not just 'nice to have' – there is actually evidence that having carefully devised and clearly articulated beliefs can help achieve better financial outcomes, i.e. more money in our pension pots.[7]

We need to see pension funds stating their investment beliefs in relation to climate change, which has unprecedented potential to alter investment outcomes and the future quality of life of pension fund savers. This will help to guide their decision making in the light of the risks posed by climate change.

Ask 3: Trustees should develop and articulate their investment beliefs in the light of the evidence of climate change.

Many pension funds are required by law to have a Statement of Investment Principles, often referred to as a SIP, and to review it a minimum of every three years. The SIP must state *"the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments"* [8]: this makes it a logical place for many funds to express their beliefs on the risks of climate change to their investments.

Carbon Footprinting

Managing the risks that climate change poses to our pension funds requires measurement of how exposed they already are to those risks. Carrying out a 'carbon footprint', which assesses the total emissions of all the companies that the pension fund holds shares in, is one valuable tool to do this. Some pension funds have already had footprints quantified, including the London Pension Funds Authority and the Environment Agency Pension Fund (EAPF).[9] Pension funds invest in company shares, and footprints are particularly useful for this area of investment, as they help to highlight which companies and sectors are emitting the most. The EAPF uses this information to engage with highlighted companies on their emissions and to encourage reductions, and this has led the Fund to sell its shares in some companies.[10] From October 2013, reporting on carbon emissions became legally obligatory for UK listed companies; this makes it easier for our pension funds to access information about companies' emissions, and therefore should encourage funds' to conduct footprints.

Pension funds may make objections to footprinting as a useful tool; namely, that it only takes into account direct emissions (i.e. those used in production) and indirect ones (from purchase of power), and that this can skew results. For example, a car manufacturer may emit less carbon during production than a train manufacturer does, and therefore appear to have a lower carbon footprint. But after production, cars contribute far more carbon to the atmosphere than trains. It is therefore important that companies report their emissions for the life of the product after manufacture, alongside those that occur during production. Companies are beginning to do this, as shown by BT which has calculated its full carbon emissions.[11]

Ask 4: Pension funds should evaluate their exposure to the risks posed by climate change, conducting a footprinting exercise where possible in order to quantify those risks.

Develop a climate policy

Policies are helpful to pension funds to assist them in selecting priority areas for action and communicating those priorities to the consultancy and investment management firms they hire, and of course, to us, the citizen savers. Policies help to guide day-to-day decisions about investments and how to respond or engage with the companies that the fund is invested in. Rather than prescribe a specific policy for pension funds to adopt, we understand that each fund is different and will need a tailored approach. However, we do recommend that pension fund climate policies cover the following areas:

- Investment beliefs underpinning the policy
- Overall goals of the policy
- Who is responsible for agreeing, updating and implementing the policy
- How often the policy will be reviewed
- Priority activity areas arising from evaluation
- Use of shareholder rights to engage with companies on climate change
- Participation in collaborative initiatives to address climate change
- Reporting to savers

Ask 5: Pension funds should develop a policy that sets out their objectives and priorities for managing the risks posed by climate change. This policy should be signed off at board level or by an investment committee of the main board.

Create an action plan, set some targets

Having a policy isn't enough. It has to be put into action. We want to see concrete steps being taken to achieve real change in the future (see Case Study 1). Action plans will be specific to the pension fund in question, and will likely focus on key priorities in order to be most effective. Including clear and quantifiable targets will be essential for pension funds to assess whether or not they are making progress on their action plans. There is strong evidence that having a target in place improves outcomes: research by Carbon Action has shown that high emitting companies which set emissions reduction targets achieve double the rate of improvement compared to companies without targets.[12]

"Having a policy isn't enough. It has to be put into action. We want to see concrete steps being taken to achieve real change in the future."

Ask 6: Pension funds should prepare an action plan to put their climate policy into practice, with clear and quantifiable targets.

Case Study 1: BT Pension Scheme[13]

BT Pension Scheme published a Sustainability Policy in 2011, explaining its trustees' view of the financial significance of a range of environmental and social issues to their long-term investments. This included the effects of climate change. The fund has undertaken a number of actions to manage the risks identified and to invest in a low carbon economy. It invests in low carbon solutions, and in a 'carbon-tilted' index, which holds fewer shares in high carbon companies.

Tell us what you're doing on climate

Pension funds do not currently have to disclose the emissions associated with the companies they are invested in. We would like to see more transparency from funds on this, in addition to more publicly available information on what positive actions they are taking to contribute to the low carbon transition. Disclosing the progress of climate-focused action plans would enable us to hold our pension funds to account and better understand what steps they're taking to protect our pensions and planet.

Ask 7: Pension funds should report regularly to their savers on the progress being made to reduce the risks posed by climate change.

2. Disrupt

In the future, as the physical impacts of climate change become more apparent and the pressures to limit emissions from governments intensify, investments in companies and projects with high emissions will be at risk of losing value. These investments put our planet at risk now by pumping carbon into our atmosphere; they will put our pensions at risk in the future if government action means that they turn from profit into loss.

Despite this, fossil fuel companies continue to pour money into exploring for new oil and gas reserves and new techniques for exploiting them. In the last year alone, the top 200 oil and gas companies spent $674bn on new exploration horizons and techniques[14], and an expected $200tn worth of oil and gas projects are planned for 2020.[15] The era of finding 'easy' oil and gas reserves is over, meaning that many of these projects (for example, Arctic drilling (see Case Study 2) and tar sands) are highly risky and complex, and may not see results for years to come. By making these long-term investments, companies are using our shareholder capital and betting on the future being the same as the past. But assumptions that the world will see continued strong demand and high prices for oil are being overturned. For example, the global bank Citi has predicted a *"plateau for global oil demand"* [16] by 2020. And of course, if governments strike a global deal on climate, the profitability of these projects will be even more questionable because the emissions they would contribute to the atmosphere will have to be limited. This would make them into 'stranded assets' full of 'unburnable' carbon.[17]

Case Study 2: Arctic oil

The last few years have seen the end of easily accessible sources of oil, and the simultaneous rise of nationalised and national company ownership of oil sources in the Middle East, Russia, and Latin America. In order to maintain their profits, these circumstances have driven international oil companies to pursue increasingly extreme sources of oil, such as the Arctic. But extracting oil from the Arctic is no easy feat: extremely harsh weather conditions, along with the need for complex technology and the long distances to travel, make the costs of Arctic drilling likely to be very high. Wall Street firm, Bernstein Research, has gone so far as to exclude Arctic oil and gas production from its predictions of our fuel supplies for the next decade, saying that *"development costs will be at the high side of the industry range"* and *"development times are likely to disappoint."* [18] Royal Dutch Shell is leading the move into the North American Arctic, and has spent more than $6bn so far on this project. Despite this, the project has stalled due to a range of setbacks in the 2012 drilling season.[19] Shell has yet to disclose how much it anticipates spending in the Arctic, what the assumed price of the oil it extracts is, or whether that price will cover its costs.

Ask 1: Pension funds should ask their investment managers to assess the risk of 'unburnable' fossil fuels in the projects undertaken by the companies in which they're invested.

Pension funds must challenge companies whose strategy is to use the money invested in them for projects such as these, which are based on the questionable assumption that oil demand will continue rising in the future. We believe shareholder power is the most effective strategy to deal with fossil fuel companies' contribution to climate change: our pension funds should question and disrupt companies' decisions to spend shareholder money on projects that are highly risky and may not provide good returns in an uncertain future. The money not spent on these projects could be returned to their pension fund shareholders (and by extension, savers) or directed into less risky projects.

Ask 2: Pension funds should support calls on companies to reduce their spending on highly risky and expensive projects which may not provide good returns.

Case Study 3: Shareholder activists shaping company strategy

Investors in the US have already acted to question and disrupt companies' plans. The hedge fund, Elliot Management, has pressured US energy company Hess to make several changes to its business and governance, which resulted in it selling off its stake in Russian oil.[20] Similarly, the Texas-based oil and gas corporation Apache agreed to sell off $4bn of its assets by the end of 2013, returning half of that amount to shareholders. This includes the sale of a third of its Egyptian oil and gas operations after shareholders called on the company to justify its presence in the politically risky area.[21] These examples show that shareholders like our pension funds can have real clout in the boardroom, steering companies away from risky and highly emitting projects, and diverting that money back to citizen savers or into projects better placed for a lower carbon future.

Fossil fuel companies aren't the only businesses that hold risks for our pension funds in the light of climate change. Other sectors are going to be affected by rising energy costs and future government targets to reduce carbon emissions. As such, our pension funds need to examine their portfolios of investments and identify which areas will be hit hardest by these changes. Analysis by consultancy Mercer and environmental data experts Trucost has shown that, aside from oil and gas companies and utilities, the main contributors to carbon footprints are basic resources (e.g. mining), construction and materials, and food and beverage companies.[22] Despite their heavy contribution to climate change, the energy, utilities, and materials sectors have a lower carbon emissions reduction rate than the average for the largest 100 listed companies in the UK.[23] Companies that are slow to adapt to the low carbon transition, and that aren't reducing emissions effectively, will be riskier investments for our pension funds than those who lead the way.

Ask 3: Pensions funds should ask their investment managers how they use information about companies' carbon emissions - and plans to reduce those emissions - when they are choosing which companies to invest in.¤ We also recommend that they sign up to Carbon Action[24], a project that asks the companies in the highest emitting industries to set publicly disclosed year-on-year emissions targets, and to invest in emissions savings projects with positive returns on investment.

Pension funds don't only invest in shares of companies. Other types of investments they make include bonds and property. Examining these investments in the light of climate change to assess their contribution to global warming and how risky they are for our pension pots will also be important. For further information on bonds and property, and our recommendations on them, please see Chapter 2 of our investor report, *The Green Light Report: resilient portfolios in an uncertain world.*[25]

¤ This 'ask' is only applicable to those investment managers that actively choose companies to invest in, rather than those managers that buy an index of companies and simply remain invested passively in that index.

Divest

3.

Green Light takes a holistic view on what needs to change in the pensions industry to catalyse the low carbon transition. Although the case for total divestment from fossil fuel companies is debatable in this wider context, there is a clear case for pension funds to pull out of those companies whose sole business is thermal coal. This type of coal is mainly used for energy generation. Growth in demand for it is predicted to fall to just 1% between 2013 and 2017, down from 7% in 2007-12. This is because of environmental regulations, competition from cheaper gas and renewable energy, and improvements in energy efficiency which means less coal is needed.[26] Therefore, not only is coal wreaking havoc on our planet, it's also an increasingly unattractive sector from a financial perspective. The World Bank, the US Import-Export Banks and the European Investment Bank have all decided to stop financing new coal-fired plants (unless in exceptional circumstances).[27] This should act as a signal to our pension funds.

There is some debate about whether demand from China, India, and South East Asia will justify investments in coal.[28] There is currently a strong demand for coal in these regions, but this is questionable from a long-term perspective. According to some predictions, China's growth is expected to slow[29], and the structure of its economy is changing from one based on heavy industry to consumerism[30], with less energy needs as a consequence. Even if China does continue to demand coal at high rates, its internal production of coal could mean it meets its own needs by 2015, which would again mean falling demand globally.[31]

If these predictions of lower demand become reality, returns on coal investments will become increasingly uncertain. And even if returns turn out to be better than our assessment suggests, continued coal use will contribute to climate change, causing a whole range of problems not just for our future quality of life, but also for the many other companies that our pension funds are invested in as they try to do business on an overheating planet.

"If these predictions of lower demand become reality, returns on coal investments will become increasingly uncertain."

Case Study 4: Storebrand divests from coal[32]

The Swedish and Norwegian financial services company, Storebrand, divested from 13 coal companies earlier in 2013, in order *"to reduce fossil fuel and CO2 exposure and ensure long-term stable returns."* Its Head of Sustainable Investment described the companies as *"worthless financially"* and characterised the decision as aiming *"to work purposefully to take our share of responsibility."*

Ask: Pension funds should set a time frame to divest from companies whose sole business is coal.

4.

Divert

> “We also need our savings to fund the green economy, channelling money into the energy types and infrastructure that will build a low carbon world.”

Catalysing the shift to a low carbon future isn’t just about addressing the highest emitting investments of our pension funds. We also need our savings to fund the green economy, channelling money into the energy types and infrastructure that will build a low carbon world. These ‘green investments’ have the potential not only to benefit our planet and our future quality of life, but also to provide our pension funds with good returns which won’t fall foul of climate change regulation. Unfortunately, green investments by pension funds remain relatively rare.

What are green investments?

This term is used to cover a wide range of planet-friendly investments. It includes low carbon goods and services, as well as the processes and technologies that allow energy and resources to be used more efficiently and with fewer emissions.[33] These investments span all sectors, including energy generation and efficiency, transport, agriculture, water and waste management.[34]

Achieving the transition to a low carbon economy requires a great deal of investment in these greener options. The OECD[35] has calculated that $2tn per year is needed for investments in green infrastructure (e.g. transportation, power networks) if we are to ‘decarbonise’ the global economy successfully. Its analysis found that currently, the level of investment stands at only half of this, meaning that we need to find an additional £1tn per year.

Pension funds are ideally placed to make green investments

Pension funds have an inherently long-term outlook, because they are investing our savings with a view to our retirement in the future. They have investments across the full breadth of the economy, often described as being ‘universal owners’, which means that they have a significant interest in the long-term performance of our economy overall. We need to transition to a greener, cleaner economy if we are to protect its performance, and by extension, our pensions. This makes our pension funds ideally placed to take the lead on green investing.

Making green investments doesn’t mean losing money from our pension pots. The green economy is going strong, accounting for a third of the UK’s growth in 2011-12 according to the Confederation of British Industry (CBI)[36]. A report by WWF and CDP has shown that improved energy efficiency and the use of low carbon technologies could result in savings of up to $190bn for the US corporate sector (excluding utilities) by 2020 alone.[37]

Based on analysis of a variety of future scenarios relating to climate change and its impacts, the consultancy Mercer has suggested that up to 40% of investment portfolios could be allocated to green investments in order to protect against the risks of climate change.[38]

Ask 1: Pension funds should make their commitment and appetite for green investments known to their consultants and investment managers. By requesting more information from these service providers on opportunities to make green investments, they can significantly increase the range of options open to them, and consequently increase their investments in our low carbon future.

What green investments could pension funds be making?

Pension funds make a range of investment types, including shares in companies, infrastructure, private equity, venture capital and bonds. Below, we focus on the first two of these investment types. For further information on the remainder in relation to climate change, please see Chapter 3 of our investor report, *The Green Light Report: resilient portfolios in an uncertain world.*[39]

Shares

There is no avoiding the fact that share prices for renewable energies have had a difficult time over the past five years. Solar and wind manufacturers have been under a variety of pressures, including competition from Asia[40] and in the US, competition from low gas prices.[41] Many of these manufacturers have gone bankrupt. This has caused our pension funds to have low confidence that these sorts of investments will provide good financial returns. In addition, the UK government has failed to provide stable regulatory support for pension funds seeking to make these sorts of investments. However, there are reasons to believe that improved performance and a more positive outlook are on the horizon.

Bloomberg New Energy Finance, which reports on and analyses the energy sector, has predicted a recovery in the performance of clean energy markets, due to a range of factors including growing demand from Africa and South America.[42] In addition, whilst green investments do include renewable energy stocks, these are not the only form that they can take. Investors are starting to recognise this, and to understand that often where green investments appear to be underperforming as a whole, it is the renewables as a component part that have in fact performed poorly, with the remaining green stocks doing well.[43] These other stocks, such as those related to water [44], continue to have a strong outlook for the future.

> “Without this greener infrastructure, the International Energy Agency has warned that the world could be ‘locked in’ to a high carbon, environmentally-harmful future”

Infrastructure

Green infrastructure (including transportation, power and communication networks etc) will play a critical role in the transition to a low carbon economy. The infrastructure that is invested in today will shape the nature of our economy for decades to come. We want it to enable us to live greener lives that protect our environment from the impacts of climate change. Without this greener infrastructure, the International Energy Agency has warned that the world could be ‘locked in’ to a high carbon, environmentally-harmful future.[45]

Infrastructure investments typically require large amounts of money and specialised expertise to oversee the projects. While only the largest UK pension funds may have this expertise internally, smaller and medium-sized pension funds can invest in in frastructure by ‘pooling’ funds.[46] Collaborating in this way allows pension funds to lower costs and gain the necessary expertise. One possible option for pooling comes in the form of the Pensions Infrastructure Platform (PIP). The PIP is aiming to raise £2bn, and has already achieved pledges worth half that amount from its 10 founding pension funds.[47] However, investments made via the PIP don’t currently have to be low carbon, and we would like to see this additional criterion added to its aims in order to ensure that new infrastructure has our environment at its heart.

Ask 2: Pension funds should work together, pooling funds in order to make low carbon infrastructure investments. If the Pensions Infrastructure Platform is used as a pooling vehicle, pension funds should ask that its infrastructure investments are low carbon.

Case Study 5: Investing4Growth

Some pension funds are proactively seeking socially and environmentally sustainable investment opportunities through the Investing4Growth project run by consultancy PIRC. Five local government pension funds have committed £250m and have asked for investment managers to propose sustainable investment opportunities to invest this money in. This is a compelling demonstration of the change pension funds can stimulate when they actively request opportunities, rather than waiting for them to be presented.

Creating a target for green investments

If we are to fund the low carbon economy, we need our pension funds to actively channel money into sustainable investments. Leading pension funds have already taken this step (see Case Study 6), serving as proof that this can be done.

Ask 3: Pension funds should adopt an internal target for green investments, such as clean energy, energy efficiency, water, agriculture, forestry, waste, and recycling.

Case Study 6: Environment Agency Pension Fund[48]

The EAPF's active fund already allocates 12-13% of its portfolio of investments to the green economy. Furthermore, it has increased its allocation to sustainable property, infrastructure and farmland/forestry, which are seen as protecting it from the risks posed by climate change. In addition, it has recently invested £15m in the Threadneedle Low Carbon Workplace Trust, providing energy efficient offices for companies committed to eco-friendly operation.[49]

5. Demand

Policies emerging via national, European and global governmental processes will have an impact on our pension savings over the coming years. They will determine how risky or rewarding various investments that our pension funds have made turn out to be, in addition to enabling or acting as a barrier to green investments. Below is a brief overview of some of the most important policy hotspots on the horizon, and areas for action by our pension funds. For a more detailed exploration of this area, please see our investor-focused report, *The Green Light Report: resilient portfolios in an uncertain world.*[50]

Our pension funds do not need to be passive observers to these policymaking processes. We want to see them using their power as major investors to call for public policy decisions that are in the best interests of us, the citizen savers. Unfortunately, many of our pension funds have yet to speak up and call for the policies we need if we are to transition successfully and smoothly to a low carbon future. The high carbon companies they invest in, however, have not been so timid: they have long realised the power of policy engagement, and have poured significant financial and staff resources into swaying policy decisions in their favour. In practical terms, this means that policies which would protect our environment aren't getting the vocal support they need, whilst policies that protect high carbon industries are being waved through.

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A total imbalance: pension funds vs company lobbying

When pension funds do try to influence policymakers, it is often through investor networks and associations where they can collaborate and share costs and expertise. In Europe, one such initiative is the the Institutional Investors' Group on Climate Change (IIGCC), which represents investors who manage a total of €7.3tn.[51] Other initiatives include the Principles for Responsible Investment (PRI), the UK Sustainable Investment and Finance Association (UKSIF), and CDP (formerly the Carbon Disclosure Project). Groups like these often coordinate letters to policymakers or release statements in support of particular proposals, and arrange face-to-face meetings between policymakers and investors. Whilst the IIGCC has many of the largest European pension funds in its membership, only 14 are UK-based pension providers. This is a tiny number when you consider that there are over 6000 pension providers in the UK, all of whom are entrusted with savers' money and all of whom are exposing that money to the risks posed by climate change.

Compare the IIGCC, staffed by just two people, to the lobbying activities of major companies: to date in 2013, the oil and gas industry alone spent $71.1m on lobbying the US Congress.[52] The positions of these companies often (though not always) oppose our best interests as savers, and impair the transition to a sustainable economy.

The policy signals our pension funds need

Our pension funds, and the companies they invest in, need clear signals from government on expectations relating to carbon emissions. If these policies were put in place, it would enable our pension funds to reassess investments in the light of their carbon emissions, and to have greater confidence to put money into low carbon investments. A global 'price' on carbon would achieve this and is the least costly way to guide a transition to a sustainable economy.[53] It would help to put the costs of carbon emissions onto company balance sheets, forcing them to reassess their emissions, move away from high carbon activities, and helping pension funds to make climate-aware decisions about where our money goes. To date, the EU Emissions Trading Scheme (ETS) has attempted to fulfil this need. Unfortunately, the scheme has experienced many setbacks and problems[54], which you can read more about in our investor-focused report, *The Green Light Report: resilient portfolios in an uncertain world.*[55] Due to these problems, the ETS has so far failed to fulfil our pension funds' need for a stable, long-term price on carbon.

Such a price would also complement any emissions reduction targets that are put in place. Both the IIGCC[56] and UK's Secretary of State for Energy and Climate Change, Ed Davey[57], have argued for a European emissions reduction target of 40% by 2030, compared to 1990 emissions levels.

Subsidising climate change

Fossil fuels still receive the bulk of financial support from governments.[58] According to the IMF, worldwide subsidies for petroleum products, natural gas, and electricity totalled $480bn in 2011, or 0.7% of global GDP.[59] This actively encourages investments in these fuels, instead of making renewable energy the more attractive option. And without a carbon price, as mentioned above, the assessment of the costs and benefits of each fuel type is skewed in favour of fossil fuel companies who don't have to 'price in' the carbon they emit. As long as this continues, the transition to a sustainable economy will be undermined, as will the health of our planet.

Paris 2015: a carbon budget and the Green Climate Fund

In 2015, global governments will meet in Paris to negotiate binding emissions cuts for all economies, which, if adopted, will lead to a global carbon budget for the period after 2020.[60] If an ambitious target for emissions reductions becomes international law, this deal will have significant implications for fossil fuel companies and our pension funds who invest in them.[61] We believe it is in pension savers' best interests, particularly those under 50 years of age, to ensure that clear and manageable regulation on carbon emissions is put in place. This will help to avoid more sudden and disruptive policy measures in the future which would badly impact our savings.

The conference will also include discussions on how to mobilise money to lessen the impacts of climate change and help adaptation, particularly focused at developing countries. Work has already begun on the Green Climate Fund, which aims to raise $100bn per year by 2020 to aid this.[62] Pledges are currently being collected from private investors, including pension funds, in developed nations.[63]

What can our pension funds do?

Pension funds, particularly small and medium-sized ones, may not be able to undertake a wholesale programme of policy engagement alone. However, as outlined above, there are already good collaborative initiatives that they can join and act through. The IIGCC, for example, would be strengthened by increased membership with more resources.

Ask 1: Pension funds should become active members of the Institutional Investors' Group on Climate Change (IIGCC) and should also encourage the investment managers they hire to support this group.

The UK's National Association of Pension Funds (NAPF) already works extensively on policy issues, but it has not yet been vocal on climate policy. Pension funds that are members of the Association should encourage it to raise its voice on climate change, pushing for clear governmental signals and helping smooth the transition to a sustainable economy.

Ask 2: Pension funds should request that the National Association of Pension Funds dedicates time and resources (including a minimum of one policy officer) to representing the interests of UK pension funds and their savers in domestic and international climate policy talks and forums.

Acting on lobbying

Our pension funds need to wake up to the fact that the companies they invest our savings in may be lobbying in opposition to our best interests. This issue was illustrated by the recent debate around reform of the afore-mentioned EU Emissions Trading Scheme, which aimed to cap emissions by placing a price on them. The ETS has faced several problems, and earlier in 2013, 12 EU states and several businesses moved to reform the Scheme in order to strengthen it.[64] However, Business Europe, a business lobby group, pushed back against the reforms, positioning itself as the voice of business, when in fact, it didn't represent the opinion of many companies.[65] This situation – where a minority of companies, funded by savers' money, attempt to undermine our best interests – highlights the need for our pension funds to examine how the companies they invest in are engaging with policymakers.

> "Our pension funds need to wake up to the fact that the companies they invest our savings in may be lobbying in opposition to our best interests."

There is growing awareness of this issue. For example, in the US, investors have filed shareholder resolutions (a proposal submitted to a formal vote at a company's Annual General Meeting) asking for more transparency on lobbying at 38 companies.[66] A group of investors also wrote to over 40 companies asking for annual reports on the companies' memberships in and payments to external organisations, and how the companies have assessed whether or not these affiliations align with their stated policies, principles, and codes of conduct.[67] Leaked information showing corporate financial support for certain organisations opposed to climate change science was one of the motivating factors for these investor initiatives.

Ask 3: Pension funds should request that the investment managers they hire support collaborative investor initiatives (including voting in favour of shareholder resolutions) to secure greater transparency from companies on:

1. **Their lobbying positions on individual climate policy proposals at national, regional, and global levels;**
2. **Their criteria used to evaluate memberships in, or contributions to, external organisations who lobby on such climate policy proposals;**
3. **Their assessment of the compatibility of a company's stated policies on climate change with the activities and policies of any funded external organisation.**

Conclusion

> “Every single pension saver has a stake in this new battle against climate change. If we come together and raise our voices loud enough, our pension funds will have to listen.”

We believe our pension funds hold the key to unlocking a greener, fairer future. The Green Light campaign takes the climate battle to the people whose investment decisions will shape the long-term nature of our economy, and it asks them to use our savings to protect us from the worst of climate change and to build a sustainable future. This report has given a broad overview of our demands for pension funds, which are repeated below. For further and more detailed information on any of the topics raised, please see our investor-focused report, *The Green Light Report: resilient portfolios in an uncertain world,* available at www.shareaction.org/greenlightreport.

The Green Light campaign is backed by a broad coalition of civil society partners, including major trade unions, faith groups and NGOs. But equally as important as these organisations are the individual pension savers who will help us transform the thinking of the pensions sector. We’re training up savers on why pensions matter in the fight against climate change, and how our demands will help protect the planet. They’ll be advocating for change to their own pension funds with our advice and support every step of the way. If you’re a pension saver who would like to learn more about how to get involved, please contact jo@shareaction.org or visit our campaign website at www.greenlightcampaign.org.uk where you can sign up for campaign updates and information. Details of all our trainings and events will be on the site, in addition to a forum for our Green Light activists to share stories and collaborate on ideas for action. For people who want to play their part in this vital new campaign but have less time to give, we’ll be running regular online actions to email pension funds asking them what they’re doing to address Green Light’s demands. We would love you to take these actions and share them with friends and across social media.

Every single pension saver has a stake in this new battle against climate change. If we come together and raise our voices loud enough, our pension funds will have to listen. And if they listen, we might just be the people who kickstarted the transition to a low carbon world.

Our demands for pension funds

Disclose

1.

Ask 1: Trustees and pension fund officers with a responsibility for investment matters should undertake a minimum of 2 hours training on the financial and environmental risks of climate change.

Ask 2: Pension schemes with experience of addressing climate change should share their knowledge and insights with peers.

Ask 3: Trustees should develop and articulate their investment beliefs in the light of the evidence of climate change.

Ask 4: Pension funds should evaluate their exposure to the risks posed by climate change, conducting a footprinting exercise where possible in order to quantify those risks.

Ask 5: Pension funds should develop a policy that sets out their objectives and priorities for managing the risks posed by climate change. This policy should be signed off at board level or by an investment committee of the main board.

Ask 6: Pension funds should prepare an action plan to put their climate policy into practice, with clear and quantifiable targets.

Ask 7: Pension funds should report regularly to their savers on the progress being made to reduce the risks posed by climate change.

2.

Disrupt

Ask 1: Pension funds should ask their investment managers to assess the risk of 'unburnable' fossil fuels in the projects that the companies they're invested in are undertaking.

Ask 2: Pension funds should support calls on companies to reduce their spending on highly risky and expensive projects which may not provide good returns.

Ask 3: Pensions funds should ask their investment managers how they use information about companies' carbon emissions, and plans to reduce those emissions, when they are choosing which companies to invest in. We also recommend that they sign up to Carbon Action, a project that asks the companies in the highest emitting industries to set publicly disclosed year-on-year emissions targets, and to invest in emissions savings projects with positive returns on investment.

3.

Divest

Ask 1: Pension funds should set a time frame to divest from companies whose sole business is coal.

4.

Divert

Ask 1: Pension funds should make their commitment and appetite for green investments known to their consultants and investment managers. By requesting more information from this service providers on opportunities to make green investments, they can significantly increase the range of options open to them, and consequently increase their investments in a low carbon future.

Ask 2: Pension funds should work together, pooling funds in order to make low carbon infrastructure investments. If the Pensions Infrastructure Platform is used as a pooling vehicle, pension funds should ask that its infrastructure investments are low carbon.

Ask 3: Pension funds should adopt an internal target for green investments, such as clean energy, energy efficiency, water, agriculture, forestry, waste, and recycling.

Demand

Ask 1: **Pension funds should become active members of the Institutional Investors' Group on Climate Change (IIGCC) and should encourage the investment managers they hire to manage our savings to also support this group.**

Ask 2: **Pension funds should request that the National Association of Pension Funds dedicates time and resources (including a minimum of one policy officer) to representing the interests of UK pension funds and their savers in domestic and international climate policy talks and forums.**

Ask 3: **Pension funds should request that the investment managers they hire support collaborative investor initiatives (including voting in favour of shareholder resolutions) to secure greater transparency from companies on:**

1. **Their lobbying positions on individual climate policy proposals at national, regional, and global levels**
2. **Their criteria used to evaluate memberships in, or contributions to, external organisations who lobby on such climate policy proposals**
3. **Their assessment of the compatibility of a company's stated policies on climate change with the activities and policies of any funded external organisation.**

The Green Light campaign needs financial support. Our ambitious plans to protect pensions and planet can't be delivered without the generous donation of our supporters around the world.

If you'd like to donate, please visit www.greenlightcampaign.org.uk.

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