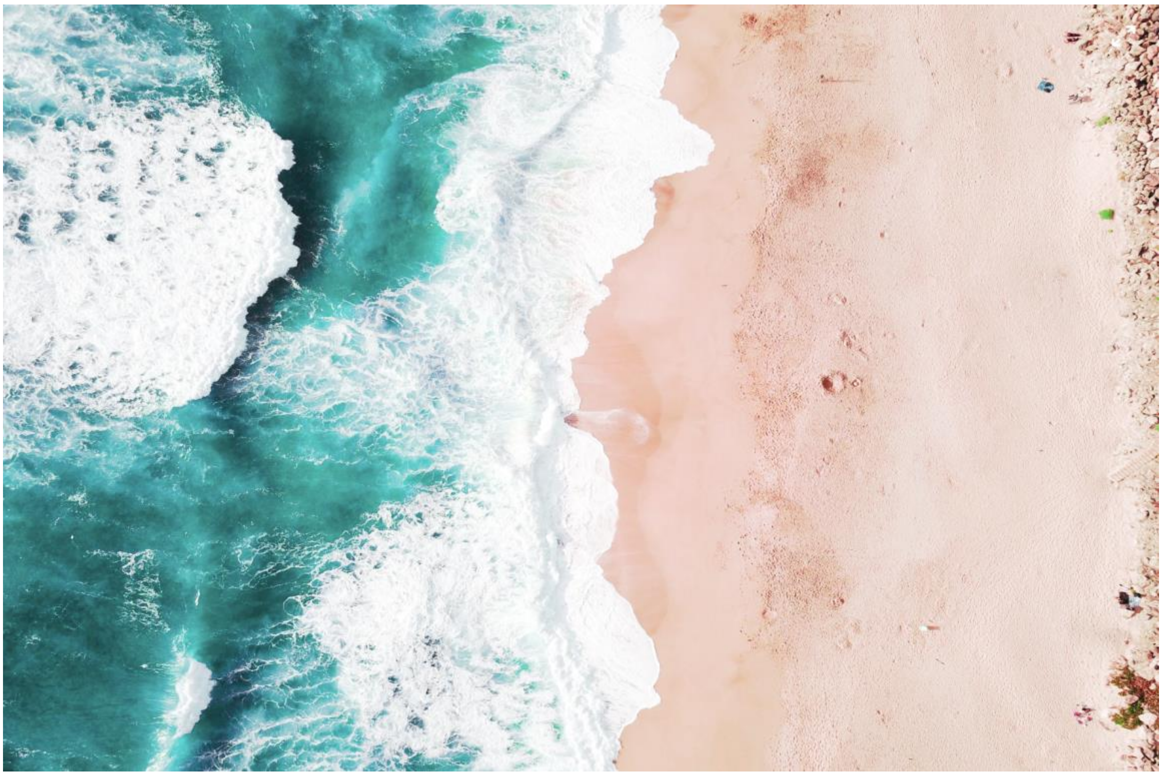
Q G Rayer and P Walton (2019), COP 2018, Climate Change and P1's Fossil Divestment Programme, DISCUS, available at http://discus.org.uk/cop-2018-climate-change-and-p1s-fossil-divestment-programme/, 3 pages, 10 January 2019.

COP 2018, Climate Change and P1's Fossil Divestment Programme

By Dr Quintin Rayer and Dr Pete Walton | January 10, 2019



Environmentally-focused investors often consider climate risks [1], [2], but research suggests that carbon-intensive industries' share prices may not reflect potential liabilities for damages from all associated hazards [3], [4], [5]. Other climate-related challenges could include sea level rise, storm surges, droughts, wildfires and extreme heat [6]. Beyond performance, many investors recognise the problems of global warming and social issues, extending ethical considerations into broader aspects of their lives, including selecting portfolio assets [7], [8].

Fossil fuel companies' activities are the major contributors to Carbon Dioxide emissions leading to global warming. In response, many investors have chosen to 'divest' – to sell assets in these industries – arguing that the carbon in those fuels must stay locked below ground to avoid further warming. At P1 Investment Management, we have also taken the decision progressively to fossil divest.

Global Warming and Fossil Fuels

It is well established that global warming is human-induced [2], with cumulative CO2 emissions the primary cause of global climate change. Fossil fuel industry activities accounted for 91% of global industrial greenhouse gas emissions in 2015. Since 1988 only 25 entities (both companies and state producers) accounted for 51% of global industrial emissions. Seven of these top 25 emitters were publicly-owned companies, collectively accounting for 9.5% of scope 1 and 3 emissions between 1988-2015 [9].

Conference of the Parties (COP24) 2018

Action is needed if we are to meet the 2015 Paris Agreement targets to hold increases in global average temperatures to "well below 2°C above pre-industrial levels while pursuing efforts to limit increases to 1.5°C…" [10]. Based on current policies, projections are for 3.5°C or more warming by 2100 [11].

The annual UN Conference of the Parties (COP 24) climate talks from 2-14 December 2018 in Katowice, Poland, were considered crucial if global warming is to be addressed [12]. At the meeting, Sir David Attenborough described climate change as humanity's greatest threat for thousands of years.

P1's Fossil Divestment Programme

Global warming is a serious consideration in P1's ethical models. In consultation with our external ethical oversight committee, the decision was taken progressively to divest from fossil fuels. In December 2018, our model portfolios were 40-46% invested in funds that are explicitly committed to total fossil divestment. In early 2019 this figure will rise to 50%, and progressively by time-bound targets to 100% after that.

A significant factor in this decision was concerns over the efficacy of engagement in changing fossil companies' behaviours. Although Shell has recently agreed to set carbon emissions targets and tie them to executive pay [13], progress has been slow. While major oil and gas companies remain members of trade associations that proactively lobby against climate action, many investors must remain suspicious about the sincerity of their engagement when it comes to addressing global warming [14].

What this means for Advisers

For the necessary low-carbon transition such firms will be unable to realise the value of their fossil reserves. It is difficult to estimate how rapidly investors may react to this possibility. Also, a growing number of investors are choosing to divest from fossil companies as an active, moral choice. Sections of society are growing impatient with apparently slow progress on addressing climate issues – fossil divestment is one way of expressing their views.

Cautious investors might consider steering clear. Markets tend to anticipate trends, and an expectation of stranded assets or significant divestment could risk shares in such companies becoming un-investable, with others reluctant to buy them, except at a substantial discount.

Our experience shows clients increasingly wish to invest ethically, and advisers can turn to wealth management firms with expertise in ethical and sustainable investing for support. The Investment Association reports £16.9 billion assets in the UK ethical funds sector in September 2018, a yearly increase of £2.4 billion [15].

With knowledge in this area, firms such as P1 can reassure both clients and advisers that their investments are generating returns while also helping to address problems such as global warming in addition to other social and governance challenges. The work that P1 has put into divestment and engagement with ethical fund managers should also give advisers confidence we have the skills to support them in this significant and growing area.

References

[1] J. Porritt, "The world in context: beyond the business case for sustainable development," Cambridge: HRH The Prince of Wales' Business and the Environment Programme, Cambridge Programme for Industry, 2001.

[2] N. Stern, "Stern Review executive summary," New Economics Foundation, London, 2006.

[3] Q. G. Rayer and R. J. Millar, "Investing in Extreme Weather Conditions," Citywire Wealth Manager®, *no. 429, p. 36, 8 February 2018.*

[4] Q. G. Rayer and R. J. Millar, "Hurricanes hit company share prices," Citywire New Model Adviser®, *no. 596, p. 18, 11 June 2018.*

[5] Q. G. Rayer and R. J. Millar, "Investing in the climate," Physics World, *vol. 31, no. 8, p. 17, August 2018. [6] National Academies of Sciences, Engineering, and Medicine, "Attribution of Extreme Weather Events in the Context of Climate Change," The National Academies Press, Washington, DC, 2016.*

[7] Q. G. Rayer, "Why clean money matters," The Actuary, *pp. 18-19, 12 April 2018.*

[8] Q. G. Rayer, "The importance of ethical investing," St Hugh's Chronicle, *pp. 37-39, 3 May 2018.*

[9] P. Griffin, "The Carbon Majors Database, CDP Carbon Majors Report 2017," 2017.

[10] UN FCCC, "Adoption of the Paris Agreement," United Nations Framework Convention on Climate Change, 2015.

[11] BBC, "Climate change: Where we are in seven charts and what you can do to help," 2 December 2018. !ǾŀŀƛƭŀōƭŜΥ ƘǘǘLJǎΥκκǿǿǿΦōōŎΦŎƻΦdzƪκƴŜǿǎκǎŎƛŜƴŎŜπŜƴǾƛNJƻƴƳŜƴǘπпсоуплсπΦ ώ!ŎŎŜǎǎŜŘ о 5ŜŎŜƳōŜNJ нлмуϐ.

[12] M. McGrath, "Sir David Attenborough: Climate change 'our greatest threat'," BBC, 3 December 2018. !ǾŀŀƛƭŀōƭŜΥ ƘǘǘLJǎΥκκǿǿǿΦōōŎΦŎƻΦdzƪκƴŜǿǎκǎŎƛŜƴŎŜπŜƴǾƛNJƻƴƳŜƴǘπпсофулрπΦ ώ!ŎŎŜǎǎŜŘ о 5ŜŎŜƳōŜNJ нлмуϐΦ.

[13] BBC, "Royal Dutch Shell ties executive pay to carbon reduction," 3 December 2018. Available: https:// www.bbc.co.uk/news/business-46424830. [Accessed 3 December 2018].

[14] Operation Noah, "Fossil Free Churches, Accelerating the transition to a brighter, cleaner future," Operation Noah, London, 2018.

[15] Investment Association, "Fund Statistics," September 2018. !ǾŀŀƛƭŀōƭŜΥ ƘǘǘLJǎΥκκ ǿǿǿΦǘƘŜƛŀΦƻNJƎκƛƴŘdzǎǘNJȅπŘŀǘŀκŦdzƴŘπǎǘŀǘƛǎǘƛŎǎκǘNJŜƴŘǎΦ ώ!ŎŎŜǎǎŜŘ о 5ŜŎŜƳōŜNJ нлмуϐ.

This article was written by Dr Quintin Rayer, Head of Research and Ethical Investing at P1 Investment Management and Dr Pete Walton, Research Fellow at UK Climate Impacts Programme of the University of Oxford. It has also been published on the DISCUS website