Q G Rayer and P Walton (2019), Divesting from fossil fuel firms can send a message on climate change, Citywire New Model Adviser®, issue 620, p21, 14 January 2019.

GREAT ADVICE GREAT PROFESSION

Divesting from fossil fuel firms can send a message on climate change

Investors are turning their backs on major emissions producers in response to their continued failure to tackle 'humanity's greatest threat for thousands of years'

Environmentally focused investors often consider climate risks. But research suggests carbon-intensive industries' share prices may not reflect potential liabilities for damages from all associated hazards.

Other climate-related challenges could include sea level rise, storm surges, droughts, wildfires and extreme heat. 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.

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 the carbon in those fuels must stay locked below ground to avoid further warming. At P1 Investment Management, we have also taken the decision to divest from fossil fuels.

TIME TO ACT: The devastating effects of rising temperatures were demonstrated when a tsunami hit Indonesia last month

POINT OF NO RETURN

It is well established that global warming is human-induced, with cumulative CO_2 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.

Action is needed 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' (Adoption of the Paris Agreement, United Nations Framework Convention on Climate Change, 2015). Based on current policies, projections are for 3.5°C or more warming by 2100.

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. At the meeting, David Attenborough described climate change as humanity's greatest threat for thousands of years.

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. Last quarter 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 engagement in changing fossil companies' behaviours. Although Shell has recently agreed to set carbon emissions targets and tie them to executive pay, 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.

For the necessary low-carbon transition, these extraction 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.

TIDE IS TURNING

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 uninvestable, 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 firms with expertise in ethical and sustainable investing for support. The Investment Association reports £16.1 billion assets in the UK ethical funds sector in October 2018, a yearly increase of £1.1 billion ■

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