



Investor Statement on Climate Change

In October 2006, the Institutional Investors Group on Climate Change (IIGCC) launched its Investor Statement on Climate Change. Now supported by 16 institutional investors – pension funds and asset managers – managing assets worth over £850 billion, the Statement represents perhaps the most significant call by UK and European investors for action by companies and the government on the threat posed by greenhouse gas emissions. It signals investors' willingness to strengthen their focus on climate change in their investment processes and to engage actively with companies and governments to develop appropriate policy solutions to climate change.

Insight conceived and led the drafting of the Investor Statement. Following its launch, we mailed the Statement to 109 companies. We have also been supporting the IIGCC in encouraging other asset managers and pension funds to sign the Statement.

One of the most important features of the Statement is that it moves beyond a focus on corporate disclosure to set out investors' expectations for how companies should manage their greenhouse gas emissions. The Statement encourages companies to assign management responsibilities for climate change at board and senior management level, to make specific, sufficiently stretching commitments to reducing greenhouse gas emissions and to integrate climate change considerations into their business strategies (see Box 1).

Investors' expectations of companies

Companies are encouraged to:

- Clearly define board and senior management responsibilities for climate change.
- Integrate climate change risks and opportunities into business strategy.
- Set high-level policy commitments in support of action on climate change, including commitments to greenhouse gas emissions reductions.
- Provide appropriate disclosures on climate change risks and opportunities that allow investors to assess the financial implications of these risks and opportunities for the company.
- Prepare and report comprehensive inventories of greenhouse gas emissions (both directly from operations and activities and indirectly from, for example, the use of the company's products). These inventories should allow historic performance to be assessed and should include projections of likely changes in future emissions.
- Integrate climate change into product design and operational management. This should include setting targets and timelines for reducing greenhouse gas emissions and impacts along the value chain.
- Proactively engage with public policy makers and other stakeholders in support of policy measures to reduce greenhouse gas emissions, and not lobby to obstruct legitimate attempts to reduce greenhouse gas emissions or mitigate the effects of climate change.

The Statement also calls on investors and companies to devote more attention to public policy. The signatories commit to using their individual and collective influence to encourage governments to adopt policies that provide incentives to reduce greenhouse gas emissions and to encourage appropriate responses to the physical impacts of climate change.

Specifically, the signatories encourage governments to set clear and challenging international targets for greenhouse gas emissions reductions for the short, medium and long-term that will enable atmospheric concentrations of greenhouse gases to be stabilised at a level that averts the most significant risks of climate change and to provide the necessary mechanisms and institutions to deliver these targets.

If this happens, companies should be able to make investment decisions with greater confidence regarding the longer-term climate change policy environment. It should also strengthen investor confidence in technologies such as renewable energy, where companies' business models are critically dependent on supportive longer-term government policies.

Finally, the Statement outlines the actions that investors themselves commit to take. The asset owners (i.e. pension funds) that sign the Statement commit to requiring their asset managers to integrate consideration of climate change risks and opportunities in their investment research, analysis and decision-making and shareholder ownership activities, and to incorporating climate change considerations into their processes for the appointment, evaluation and reward of their asset managers.

More generally, the signatories agree to work together to share information among the growing number of investors and organisations around the world concerned about climate change and to incentivise research on the risks and opportunities of climate change and climate policy.

We believe that the Statement represents one of the most important contributions made by institutional investors to the climate change debate. It recognises that investment decisions taken now will have a major impact on current and future global greenhouse gas emissions and, hence, on the world's climate. It also recognises the uncomfortable reality that current investment research, analysis and decision-making and shareholder ownership activities do not fully reflect the risks and opportunities presented by global climate change, and provides a road map for investor activity in this area.

In 2007, our engagement on climate change will build on the principles outlined in the Statement. We will focus our efforts on public policy engagement, encouraging companies to fully integrate climate change into their business strategies and working with others (e.g. IIGCC, Carbon Disclosure Project, sell-side brokers) to encourage the better integration of climate change risks and opportunities into investment analysis.

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Produced by the Insight Investor Responsibility Team

The IIGCC Investor Statement on Climate Change can be found at:

http://www.insightinvestment.com/Documents/responsibility/IIGCC_Investor_Statement.pdf.