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Climate market watch

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Articles this month:

Barclays climate change resolutions
New requirements for scheme disclosures
The Green Recovery Plan

Barclays climate change resolutions

In January 2020, NGO ShareAction joined forces with over 100 investors and filed a climate-related shareholder resolution at Barclays, the first of its kind at a European bank. The resolution, which was voted on at the 7 May 2020 AGM, called for Barclays to do away with their investments in the energy and utilities sectors that are not aligned with the goals of the 2015 Paris Agreement. The Board did not support the ShareAction resolution whilst management also put forward their own climate related resolution setting out an ambition to become net-zero and requiring the development, implementation and reporting on a strategy to align with the Paris Agreement. The shareholder resolution did not pass (although gained the support 24% of Barclays' shareholders) whilst the management resolution was strongly supported by shareholders.

Why Barclays?

While many banks have continued to support the energy sector and fossil fuel companies, Barclays is said to be the largest financier of fossil fuels in Europe, and the sixth largest globally. ShareAction has been engaged with Barclays since 2016, lobbying them to reduce their exposure to more controversial investments in coal, tar sands and Arctic oil. What was regarded as a weak lending policy in the energy sector, together with high exposure to carbon-intensive companies in the bank's investment arm have drawn attention from climate activists throughout the UK. The resolution would have forced Barclays to publish a robust plan to reduce any investments that aren't aligned with the climate accord, and report annually on its progress.

Our view

The filing of this resolution is a significant first and is a salient reminder that all participants in our economy must consider the extent to which their strategy is aligned to climate goals and plan for change. We expect that similar pressures will be brought to bear on other institutions in future. whilst the resolution was not voted in, Barclays is expected to release a new climate strategy in November, which will hopefully set out how they expect to make headway with their net-zero pledge and reflect the concerns of those who voted for the resolution.

Further reading suggestions: The full resolution[1] provides a thorough look at Barclays' current fossil fuel activities and energy policies and may be of interest to detail-orientated investors and bankers. Barclays' new plans on climate policies show the power of the filing, even before the May AGM takes place.

[1] <https://shareaction.org/wp-content/uploads/2020/02/Barclays_Investor_Report.pdf>

New requirements for scheme disclosures

On 12 February 2020, the UK Government put forward its plans to increase the existing disclosure requirements on pension schemes in relation to what they are doing to manage climate change risks. Following this, in March the Pensions Climate Risk Industry Group (PCRIG) drafted new guidance to help pensions trustees meet the new requirements – this guidance is currently out for consultation. Guidance to date has require pension schemes to disclose their policy on how climate change is factored into their investment arrangements within the Statements of Investment Principles whilst the proposed requirements are likely to be more onerous for pension schemes.

What does this mean for me?

If passed, this amendment to the Pension Schemes Bill will make it mandatory for schemes to disclose their approach to managing climate related risks in line the framework developed by the Taskforce on Climate-related Financial Disclosure (TCFD). Disclosure will in turn require that trustees engage further with climate related risks and evolve their policies and practices accordingly.

Our view

The response from asset owners to the topic of climate risk has been mixed. Whilst some have clearly led and demonstrated high levels of ambition, others have been dragging their heels. The goal of the Pensions Minister is clearly to shift attitudes and behaviours with regard to climate risk. While some commentators believe that the amendment gives too much power to the government to force schemes to change their investment strategies, we hope that the effect will be to stimulate activity by asset owners, helping to drive change across the entirety of the financial services industry.

The Green Recovery plan

Whilst COVID-19 has dominated the world's attention over recent months, there have been growing calls for the recovery to "build back better", incorporating targets to reduce emissions and decarbonise industries. The EU recently announced their Green New Deal[2] which includes strong targets to reduce emissions by at least 50% by 2030 and reach net zero emissions by 2050.

The 'Green Recovery Alliance', an international alliance, was established in April so as to put the Green Deal at the front and centre of the post-pandemic recovery plan. A number of signatories, including large private sector names such as Ikea, Unilever and E.ON commit to supporting these green post-pandemic plans.

What does this mean for me?

Signatories to the appeal for a green recovery are committing to offer "the necessary investment solutions, aligned with climate commitments, to revive the economy after the crisis." The statement released by the Alliance and its signatories refers to the large amount of new technology that has been developed in the past ten years, which weren't yet (readily) available to support the recovery from the 2008 financial crisis. They state that these new technologies will "massively reduce" the cost of the ecological transition and may serve to accelerate some of the changes to our economic, social and financial systems,

Our view

Whilst the impact that market volatility has had in recent months can be unnerving to those of us who are more risk averse, it is comforting to note that both governments and industry leaders are not only declaring their support to recover the economy but are also restating their commitment to ensuring this is done in an environmentally friendly manner. Whilst the policy actions required to change in this way will need mutual support and global co-ordination, they will inevitably create opportunities for long-term investors.

Further reading: The full statement[3] from the Green Recovery Alliance can be found online.

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[2] <https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en>

[3] <https://t.co/A3ArY0N3Zy?amp=1%20>