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**Millions of pensions exposed as Canadian investors fall behind on**

**climate risk management**

**The world is moving rapidly towards a low carbon energy system.** In Paris in December, 195 countries adopted the first-ever universal, legally binding global climate deal, committing to limit global warming to well below 2 degrees Celsius above pre-industrial levels, with a further goal of working toward a 1.5-degree limit. If this agreement is to succeed it means that up to 2050 [approximately](http://www.collectif-scientifique-gaz-de-schiste.com/fr/accueil/images/pdf/texteschoisis/McGlade_et_al-2015-Nature.pdf) 35 percent of known oil reserves, 52 percent of gas reserves and 88 percent of coal reserves are unburnable. A significant proportion of the oil and gas reserves that will not be burned include oil sands in Canada. Under this scenario, investors should be concerned about asset stranding and protecting portfolio value for beneficiaries.

Two fifths of Canada’s biggest investors are in denial about climate change risk as pension funds gamble with the financial security of millions, reveals the annual global benchmark report on the industry from the Asset Owners Disclosure Project (AODP).

*The Global Climate 500 Index* finds that 11 institutions with funds worth US$285 billion, including nine pension funds, have taken no action to mitigate climate change risk to their portfolios despite warnings from Mark Carney, Governor of the Bank of England and chairman of the international Financial Stability Board, that climate action could leave fossil fuel and other high carbon investments as worthless stranded assets.

Canada ranks only 11th in the world for investor action on climate risk, lagging behind major markets like Australia (3rd), the Netherlands (6th), the UK (7th) and the US (9th), the report finds.

*The Global Climate 500 Index* rates the world’s 500 biggest asset owners on how well they are managing climate risk in their portfolios, grading them from AAA to D while those taking no action are rated X. Canada has 26 institutions on the list and the highest-rated, the Ontario Teachers Pension Plan with $131 billion in funds, only achieves a CCC.

Many Canadian asset managers have been downgraded in this year’s report, which sets a higher bar, requiring more evidence of tangible action. Only four with $368 billion of assets under management rate CC or CCC. Another 11 institutions with $739 billion AUM recognize climate risk but have taken only the first steps to deal with the problem, receiving a D-rating. These include Canada’s biggest asset owner, the $232 billion insurance company, Manulife Financial.

The biggest of the 11 X-rated “laggards” are the $48 billion Quebec Government and Public Employees Retirement Plan and the $45 billion Quebec Teachers Pension Plan.

AODP CEO Julian Poulter said: “Justin Trudeau is showing leadership on climate change, after years of drift, but he must now make sure Canadian financial institutions act on global warnings about the financial risks it poses. Pension funds and insurers that choose to ignore climate change are gambling with the savings and financial security of millions of people.

“If Canada is to remain an advanced economy at the end of the low carbon transition, it needs to invest in a plan B quickly. Only Canada’s pension funds have sufficient capital to ensure that Mr Trudeau’s policies can be implemented and that Canada emerges as a clean economy leader.”

The independent non-profit AODP rates the world’s 500 biggest investors - pension funds, insurers, sovereign wealth funds, foundations and endowments with $38 trillion of assets under management (AUM) - on their success at managing climate risk within their portfolios, based on direct disclosures and publicly available information. This year AODP has raised the bar, requiring evidence of tangible action and no longer scores purely for transparency or commitments.

Globally a fifth (97) of the world’s 500 biggest investors with $US9.4 trillion in funds are now taking tangible action to mitigate climate change risk, earning ratings of at least C, and last year saw a big rise in support for shareholder resolutions and low carbon investment. Another 157 worth $14 trillion rated D are taking the first steps.

But only 5% of investors worldwide are acting on warnings from the G20’s Financial Stability Board that climate action could leave fossil fuel investments as worthless stranded assets, and 246 investors with $14.3 trillion in funds rated X are ignoring climate risk completely.

Julian Poulter said: “Climate change risk is now a mainstream issue for institutional investors and last year has seen many significantly step up their action to manage this. However, only a handful are protecting their portfolios from the very real danger of stranded assets, and it is shocking that nearly half the world’s biggest investors are doing nothing at all to mitigate climate risk.”

Sweden tops the Country Index, with the most investor action on climate risk, followed by Norway, with Denmark fifth. France, where the Paris Climate Summit brought climate risk into sharp focus, takes fourth place with three funds in the top 20 for the first time.

Pension funds account for nearly two thirds of the *Global Climate 500 Index* (322) and insurers nearly a quarter (118). Only two of the seven countries that dominate the global pensions market [[1]](#footnote-2) rank behind Canada in the Country Index: Switzerland 14th and Japan 25th.

**Climate change moving up the global financial agenda**

Climate change has become a central issue for financial markets. Mark Carney, Governor of the Bank of England and chairman of the Financial Stability Board, has warned that climate change action could make huge reserves of coal, oil and gas unburnable stranded assets threatening investors with huge losses and destabilising markets. [[2]](#footnote-3)

The FSB has set up a task force led by former New York Mayor Michael Bloomberg to recommend how Asset Owners, the companies they invest in and other financial intermediaries should report the potential impact of climate change on their bottom line.

Christiana Figueres, Executive Secretary of the UN Framework Convention on Climate Change (UNFCCC), said: “The Paris Agreement has set out the path, direction and ultimate destination for the global economy. Increasing numbers of asset owners understand this and more are coming to that realization. I would encourage all of them to pick up the pace and ramp up their ambition in respect to a low carbon transition—it is the key to reducing risk and securing the health of their portfolios now and over the long term”.

Investors that recognise climate risk are taking significantly more action than last year, the AODP report reveals. The global leaders, rated A to AAA, have grown 29% from 24 to 31 investors with $2.7 trillion AUM. On average the 12 AAA-rated institutions have outperformed the benchmark return over five years, demonstrating that climate risk can be managed without sacrificing returns.

But the biggest increase at a global level has been in asset owners still developing their climate risk strategy, with a 52% rise in those rated C to CCC, from 27 to 41 with $3.4 trillion AUM. There are now 97 investors rated C or above with $9.4 trillion AUM, up from 77, while the D group taking the first steps has shrunk from 191 to 157 with $14 trillion AUM.

The number of X-rated laggards has grown from 232 in 2015 to 246 with $14.3 trillion AUM. The 10 biggest X-rated funds, worth a total $4.9 trillion, include sovereign wealth funds in the oil states of Abu Dhabi, Kuwait, Saudi Arabia and Qatar as well as China and Hong Kong, insurance companies China Life, Japan Post and Zenkyoren of Japan, and the US pension fund Thrift Savings Plan.

**Three key strategies for managing climate risk**

The Global Climate 500 Index is the world standard for assessing the success of asset owners at managing climate risk. It evaluates them on three approaches: tackling risks associated with high-carbon assets in their portfolios; engaging with the companies they own and with stakeholders throughout the investment chain to reduce climate risk; and investing in low-carbon assets.

**Risk management**

* 10% of asset owners and 74% of the leaders group (rated A to AAA) are measuring carbon in their portfolios, up from 7% and 67% last year. However, only 2% of asset owners have declared a target for reducing portfolio carbon next year.
* Just 5% of asset owners and only half the leaders disclose that they are measuring the impact that stranded assets may have on their investments – although this is an improvement on the 3% last year. This indicates that more complex risk management activities are often the last to be implemented.

**Engagement**

* 13% of asset owners and 97% of leaders now have staff dedicated to integrating climate risk management into the investment process, up from 9% and 79% last year.
* Support for shareholder resolutions on climate change has grown strongly, with 12% of investors voting in favour of at least one, compared with 7% last year. Among leaders support grew from 67% to 84%.

**Low Carbon Investment**

* Low carbon investment grew 63% from $85 billion to $138 billion. General lack of disclosure and difficulties defining low carbon assets mean this is likely to be an underestimate but funds are working to define this better for next year.
* The Netherlands is the most active country by far with $39 billion invested in low carbon, 3.4% of AUM. Canadian asset owners have invested $3 billion, just 0.2% of their total AUM and below the Index average of 0.5% AUM.

ENDS

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**Notes to editors**

The **Asset Owners Disclosure Project** is an independent not-for-profit global organisation whose objective is to protect retirement savings and other long term investments from the risks posed by climate change by improving disclosure and industry best practice. [www.aodproject.net](http://www.aodproject.net)

**Top 4 Canadian asset owners**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Global Rank** | **Asset Owner** | **2016 Rating** | **2015 Rating** | **AUM US$Mln** | **Type** |
| 64 | Ontario Teachers Pension Plan (OTPP) | CCC | BB | 131,469 | Pension fund |
| 70 | OPSEU Pension Trust | CC | D | 14,010 | Pension fund |
| 71 | The American Growth Fund (AGF) | CC | N/A | 13,528 | Mutual fund |
| 74 | Canada Pension Plan Investment Board (CPPIB) | CC | BB | 208,835 | Pension fund |

**Biggest 5 Canadian “laggards” taking no action on climate change**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Asset Owner** | **2016 Rating** | **2015 Rating** | **AUM US$Mln** | **Type** |
| Quebec Government and Public Employees Retirement Plan (RREGOP) | X | D | 48,108 | Pension fund |
| Quebec Teachers Pension Plan- (Regimes De Retraite Des Enseignants) (TPP-Quebec) | X | X | 44,904 | Pension fund |
| Fonds d’amortissement des régimes de retraite (FARR) | X | D | 41,395 | Pension fund |
| Alberta Local Authorities Pension Plan | X | X | 26,492 | Pension fund |
| Fairfax Financial | X | N/A | 25,109 | Insurer |

**Top 10 countries (ranked by average score)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **% of asset owners** | **Proportion of AUM**  | **# asset** | **2015 %** |
| **Rank** | **Country** | **Leaders** | **Laggards** | **Leaders** | **Laggards** | **owners** | **Leaders** | **Laggards** |
| 1 | Sweden | 30% | 0% | 33% | 0% | 10 | 20% | 0% |
| 2 | Norway | 25% | 0% | 6% | 0% | 4 | 50% | 0% |
| 3 | Australia\* | 18% | 3% | 16% | 9% | 33 | 18% | 11% |
| 4 | France | 21% | 29% | 13% | 8% | 14 | 14% | 29% |
| 5 | Denmark | 10% | 20% | 10% | 19% | 10 | 10% | 20% |
| 6 | Netherlands\* | 17% | 17% | 51% | 6% | 18 | 11% | 11% |
| 7 | UK\* | 14% | 23% | 14% | 8% | 43 | 6% | 34% |
| 8 | Brazil | 0% | 40% | 0% | 30% | 5 | 0% | 0% |
| 9 | USA\* | 5% | 67% | 10% | 46% | 174 | 4% | 53% |
| 10 | China | 0% | 63% | 0% | 59% | 8 | 0% | 100% |
|  |   |  |  |  |  |  |  |  |
| 11 | Canada\* | 0% | 44% | 0% | 21% | 27 | 0% | 34% |
| 14 | Switzerland\* | 0% | 33% | 0% | 16% | 21 | 0% | 60% |
| 25 | Japan\* | 0% | 58% | 0% | 14% | 26 | 0% | 45% |

\* P7 countries

**Top 12 global asset owners**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Asset Owner** | **2016 Rating** | **2015 Rating** | **AUM US$Mln** | **Type** | **Country** |
| 1 | The Environment Agency Pension Fund (EAPF) | AAA | AAA | 3,956 | Pension fund | UK |
| 2 | Local Government Super (LGS) | AAA | AAA | 7,121 | Pension fund | Australia |
| 3 | Fjärde AP-Fonden (AP4) | AAA | AAA | 36,718 | Pension fund | Sweden |
| 4 | Stichting Pensioenfonds ABP | AAA | AAA | 391,400 | Pension fund | Netherlands |
| 5 | New York State Common Retirement Fund (NYSCRF) | AAA | AAA | 184,500 | Pension fund | US |
| 6 | Pensionskassernes Administration A/S (PKA) | AAA | A | 31,315 | Pension fund | Denmark |
| 7 | AustralianSuper | AAA | AAA | 71,575 | Pension fund | Australia |
| 8 | Andra AP-Fonden (AP2) | AAA | AA | 37,500 | Pension fund | Sweden |
| 9 | California Public Employees Retirement System (CalPERS) | AAA | AAA | 301,863 | Pension fund | US |
| 10= | Etablissement de retraite additionnelle de la Fonction Publique (ERAFP) | AAA | A | 25,501 | Pension fund | France |
| 10= | Church Commissioners for England | AAA | N/A | 10,443 | Endowment | UK |
| 12 | First State Super | AAA | AA | 39,349 | Pension fund | Australia |

**Breakdown of climate risk ratings for world’s 500 biggest assets owners**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **CATEGORY** | **RATINGS BANDS** | **ASSET OWNERS 2016** | **AUM ($BILLIONS)** | **ASSET OWNERS 2015** |
| LEADERS | AAA | 12 | 1,141 | 9 |
| AA | 8 | 641 | 7 |
| A | 11 | 896 | 8 |
| CHALLENGERS | BBB | 15 | 2,280 | 9 |
| BB | 4 | 17 | 9 |
| B | 6 | 1,089 | 8 |
| LEARNERS | CCC | 8 | 570 | 9 |
| CC | 17 | 1,092 | 9 |
| C | 16 | 1,695 | 9 |
| BYSTANDERS | D | 157 | 13,969 | 191 |
| LAGGARDS | X | 246 | 14,348 | 232 |
| TOTAL |  | **500** | **37,737** | **500** |

1. Willis Towers Watson: Global Pensions Assets Study, 2016. Seven countries account for nearly $33trn of pensions investment: The US is by far the biggest with $21.8trn, followed by: UK, $3.2trn; Japan, $2.7trn; Canada, $1.5trn; Australia, 1.5trn; Netherlands, $1.4trn; Switzerland, $0.8trn. [↑](#footnote-ref-2)
2. Financial Times: [Mark Carney warns investors face ‘huge’ climate change losses](http://www.ft.com/cms/s/0/622de3da-66e6-11e5-97d0-1456a776a4f5.html#axzz46S0ngn27), 29-9-15 [↑](#footnote-ref-3)