Press Release

Investors with over $11 trillion in assets expect power companies to show they are 'fit for the clean energy future' and back climate policy

London: 95 leading investors today call on power companies across Europe to demonstrate they are 'fit for a clean energy future'. The investors, with a collective $11.5 trillion in assets under management, are asking firms to demonstrate they are implementing business strategies aligned with the goals of the Paris Agreement. This entails delivering rapid reductions in greenhouse gas emissions and keeping pace with the changing dynamics and economics of the power sector, transformed by the adoption and falling cost of renewables.

Through the Institutional Investors Group on Climate Change (IIGCC), the investors are writing to Eurelectric as the relevant sector trade body and Germany's coal exit commission. A copy of the letter will also be sent to European power companies with the largest emissions footprints across the region, listed as Climate Action 100+ focus companies[1].

Less than a week after the UN COP24 climate conference in Poland, the investors make clear, "as investors collectively representing $11.5 trillion, we require power companies – including power generators, grid operators and distributors – to plan for their future in a net-zero carbon economy." The investors request that power companies:

- "Set out transition plans consistent with the goal of the Paris Agreement, including compatibility of capital expenditure plans.
- Set explicit timelines and commitments for the rapid elimination of coal use by utilities in EU and OECD countries by no later than 2030, defining how companies will manage near-future write-downs from fossil fuel infrastructure.
- Support the development of ambitious climate policy aligned with the Paris Agreement and to ensure that their trade associations are aligned with this objective."

The investors explain that "the risks to global markets and companies we invest in from 2°C or higher temperature rises are potentially catastrophic." The letter continues by stating that success in addressing climate change is "vital to those with a fiduciary responsibility for other people's long-term investments."

Coordinated by the Institutional Investors Group on Climate Change, with the lead authors Hermes Investment Management, the intervention has also been developed to deliver on the goals of Climate Action 100+. This is an unprecedented global investor initiative to engage and ensure the world's largest corporate greenhouse gas emitters take necessary and sufficient action on climate change.

Signatories to the letter include some of the largest institutional investors and asset managers primarily across Europe, but also globally. 20 of the 95 total signatories each have over $200 billion in assets under management, for example Aberdeen Standard Investments, BNP Paribas Asset Management, DWS, Legal and General Investment Management, Nordea Group and M&G, among others[2].

The rationale behind the disclosure sought by investors is two-fold. Firstly, as stated in the letter "decarbonisation of the power sector, which accounts for around a quarter of global emissions, will define the success or failure of the low-carbon transition since it is fundamental to also decarbonising heat, transport and industry".

Secondly, the letter covers the risk of power sector companies failing to keep pace with the changing economics and dynamics of power generation, supported by policy to drive decarbonisation. Renewables increasingly provide the cheapest means of generating power as their adoption at scale, the digitisation of energy and transport, and convergence of broader innovation trends are leading to unprecedented disruption of the traditional utility business model[3]. The European Union's intention to put in place a target for net-zero greenhouse gas emissions by 2050[4], is one example of how the new economics of energy are being reinforced by climate policy.

Stephanie Pfeifer, Chief Executive, Institutional Investors Group on Climate Change, explains: "The investors writing the letter are clear power companies need to take account of trends that are materially shifting the economics of power generation, such as rising carbon prices and the rapid increase in the competitiveness of renewables. Research by Carbon Tracker shows that nearly all European coal-fired power plants will be loss making by 2030. Utilities need to demonstrate they are fit for the clean energy future."

Over 40 percent of coal plants globally are already operating at a loss[5], while solar PV and wind power are already cheaper than building new large-scale coal and gas plants[6]. The risk for investors and the companies in question is exposure to stranded assets in order of trillions of dollars for companies left behind[7]. Even if all planned future capacity was cancelled today, leading academics have shown that approximately 20 percent of existing global fossil fuel generation capacity will still need to be stranded in order to meet the goals of the Paris Agreement[8].

Gerald Cartigny, Chief Investment Officer, at MN a Dutch asset management firm responsible for more than $130 billion on behalf of clients, and Vice Chair, Institutional Investors Group on Climate Change, adds: "Recent publications by IPCC, IEA and Nature among many others, emphasise that the world is moving too slowly and in the wrong direction. All sectors need to step-up and accelerate their efforts to decarbonise. As investors we are calling upon the power utility sector and policy makers to demonstrate they are taking the right measures at the right pace."

The expectations set by investors are made on the basis that the sector should be actively managing the transition already evident and disclosing relevant details to their shareholders.

Bruce Duguid, Head of Stewardship, Hermes EOS, advising on corporate engagement for investors with $486 billion of assets under management, adds: "The falling cost of renewable technologies and improvements in energy efficiency have consistently beaten forecasts, placing enormous pressures on the traditional business models of utilities. Utilities companies must embrace these changes in order to deliver the societal imperative of providing clean energy solutions across the world. For these reasons, investors are increasingly supporting and influencing companies in asking them to demonstrate plans consistent with meeting the Paris goals."

Power companies that significantly rely on coal will be most exposed to stranded assets. In recognition of the need to move away from coal, 16 European nations, as part of the broader Powering Past Coal Alliance, have already committed to the phase out of coal power no later than 2030, in addition to a range of power sector utility companies[9].

James Bevan, Chief Investment Officer, CCLA one of the UK's largest charity fund managers responsible for $10 billion in assets, notes: "Investors increasingly understand that coal power belongs in the past. We need reassurance all companies across the power sector are on the same page. In addition to wreaking havoc on the climate, the economics of coal power are crumbling in the face of cleaner renewable energy."

"There's good reason so many countries and an increasing number of power utilities have already committed to phase out coal. If applied across the EU, the power sector and investors collectively can avoid up to €22 billion in losses we otherwise face by 2030. Companies such as RWE are still clinging to coal and lobbying against its necessary phase out in Germany. The message today is this needs to end."[10]

The letter is clear that investors will continue engagement with power sector utilities, especially through Climate Action 100+. Where necessary, they will "also deploy all the tools available to us as shareholders" to ensure laggards are aligned with the expectations outlined, again through Climate Action 100+ as appropriate.

Anne Simpson, Climate Action 100+ Steering Committee member and Investment Director, CalPERS, also a signatory to the letters explains: "The European power sector is leading the way when it comes to decarbonisation, but other markets aren't far behind. From the U.S, to China and India, renewables are transforming power markets across the globe. Climate Action 100+ investors are paying close attention and engaging with the largest emitting power companies globally, in line with their right and responsibility as major shareowners, to ensure they are helping drive the clean energy transition instead of being left in its wake."

- Ends -

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Notes to editors:

A copy of the letter from investors available here on the IIGCC website. It was also published by the Financial Times in full here.

1. See here for a full list of Climate Action 100+ focus companies. Those to receive the letter are: Centrica, CEZ, E.ON, EDF, Enel, ENGIE, Fortum Oyj, Naturgy, Iberdrola, National Grid, RWE and SSE.
2. A full list of signatories to the letter is listed below and available at the end of the full letter.
3. See 'Liebreich: Beyond Three Thirds, The Road to Deep Decarbonization' blog post for more context on some of the trends reference (see link).
4. 'The Commission presents strategy for a climate neutral Europe by 2050', European Commission (see link).
5. '42% of global coal power plants run at a loss, finds world-first study', Carbon Tracker (see link).
6. 'New Energy Outlook 2018', Bloomberg New Energy Finance (see link).
7. 'COP24: Stranded assests, the trillion dollar question for the energy sector', Euler Hermes (see link) and 'Macroeconomic impact of stranded fossil fuel assets', Nature (see link).
8. 'Committed emissions from existing and planned power plants and asset stranding required to meet the Paris Agreement', Environmental Research Letters (see link).
9. Powering Past Coal Alliance (see link).
10. 'Lignite of the living dead', Carbon Tracker (see link).

About IIGCC: The Institutional Investors Group on Climate Change (IIGCC) is the European forum for investor collaboration on climate change and the voice of investors taking action for a prosperous, low-carbon future. IIGCC has more than 160 members, mainly pension funds and asset managers, across 11 countries, with over €21 trillion assets under management.

About Climate Action 100+: Climate Action 100+ is a five-year initiative led by investors to engage many of the world's largest greenhouse gas emitters and companies across all sectors of the global economy that have significant opportunities to drive the clean energy transition and achieve the goals of the Paris Agreement. Investors are calling on companies to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.

Climate Action 100+ is coordinated by five partner organisations: Asia Investor Group on Climate Change (AIGCC); Ceres; Investor Group on Climate Change (IGCC); Institutional Investors Group on Climate Change (IIGCC); and Principles for Responsible Investment (PRI). It builds upon the collaborative investor engagement pioneered since 2012 by the four organisations that together form the Global Investor Coalition on Climate Change. It also draws upon the leadership of PRI and its investor engagements across environmental, social and governance issues. For more information, visit: www.ClimateAction100.org and follow: @ActOnClimate100.

Signatories to the investor letter: 95 investors representing $11.5 trillion in assets have signed the investor letter and are listed below.

Aargauische Pensionskasse (APK), Switzerland
Aberdeen Standard Investments
Aegon Asset Management
AP2
AP7
Aviva Investors
AXA Investment Managers
Bernische Lehrerversicherungskasse, Switzerland
BMO Global Asset Management
BNP Paribas Asset Management
Border to Coast Pensions Partnership
Caisse de pensions de l'Etat de Vaud (CPEV), Switzerland
Caisse de pensions ECA-RP, Switzerland
Caisse de prév. des Fonctionnaires de Police & des Etablissements Pénitentiaires, Switzerland
Caisse de Prévoyance de l'Etat de Genève (CPEG), Switzerland
Caisse de Prévoyance des Interprètes de Conférence (CPIC), Switzerland
Caisse intercommunale de pensions (CIP), Switzerland
Caisse paritaire de prévoyance de l'industrie et de la construction (CPPIC), Switzerland
CalPERS
CalSTRS
Calvert Research & Management
CANDRIAM
CAP Prévoyance, Switzerland
CCAP Caisse Cantonale d'Assurance Populaire, Switzerland
CCLA
Central Finance Board of the Methodist Church
Church Commissioners for England
Church of England Pension Board
CIEPP - Caisse Inter-Entreprises de Prévoyance Professionnelle, Switzerland
DWS Investment GmbH
Elo Mutual Pension Insurance Company
Environment Agency Pension Fund
Epworth Investment Management Limited
ERAFP
Etablissement Cantonal d'Assurance (ECA VAUD), Switzerland
Ethos Foundation, Switzerland
Fidelity International
Fondation de la métallurgie vaudoise du bâtiment (FMVB), Switzerland
Fondation de prévoyance du Groupe BNP PARIBAS en Suisse, Switzerland

Fondation Leenaards, Switzerland
Hermes EOS
Hermes Investment Management
Investec Asset Management
Ircantec
KBIGI
Kempen Capital Management
La Française Groupe
Länsförsäkringar AB
Legal and General Investment Management
LGPS Central Ltd
Local Authority Pension Fund Forum
Local Pensions Partnership
London Pensions Fund Authority
M&G Investments
Merian Global Investors
Merseyside Pension Fund
Mirova
MN
MP Pension
Nest Sammelstiftung, Switzerland
New York City Comptroller's Office
New York State Common Retirement Fund
Newton Investment Management
NN Investment Partners
Nordea Group
Öhman Fonder
Ostrum Asset Management
P+(DIP/JOEP)
Pensionskasse Caritas, Switzerland
Pensionskasse der Stadt Winterthur, Switzerland
Pensionskasse Stadt Luzern, Switzerland
Pensionskasse Unia, Switzerland
Pictet Asset Management
PKA
Prévoyance Santé Valais (PRESV), Switzerland
Prévoyance.ne, Switzerland
Profelia Fondation de prévoyance, Switzerland
Prosperita Stiftung für die berufliche Vorsorge, Switzerland
Raiffeisen Capital Management
Rathbones Greenbank Investments
Retraites Populaires, Switzerland
Robeco
RobecoSAM
RPMI Railpen
Sarasin & Partners
Schroders
SEB Investment Management
Skandia
St. Galler Pensionskasse, Switzerland
Stiftung Abendrot, Switzerland
Storebrand Asset Management AS
Strathclyde Pension Fund
Terre des hommes, Switzerland
Transport for London Pension Fund
Trusteam Finance