

7th Jan 2020

Dear Ian, Terry, Abhijay, Muir and Francisco,

College Socially Responsible Investment (SRI) Policy

We are pleased to submit this response to your call for evidence on Imperial's SRI policy from the Grantham Institute. As Imperial's climate change and environment Global Institute, our recommendations will focus on the relationship of College investments with these issues, although we recognise and support more sustainable investment in other domains, particularly regarding tobacco and arms.

Summary

We welcome the establishment of the Imperial College Socially Responsible Investment Policy Working Group and hope the College will take this opportunity to make leading, bold and appropriate decisions.

It is financially astute to invest in businesses that are addressing the challenges of climate change and sustainable development. The evidence to support this has been assembled and analysed by the OECD [1] and Bank of England [2]. Put at its bluntest by Mark Carney, the outgoing Governor of the Bank of England, those businesses and investors who ignore climate change and do not inform their business and investment decisions accordingly will cease to trade. Much of Imperial's business depends on the value of the leadership it provides through its research and education. Our investment portfolio holds a mirror up to our internal values and judgement. These currently appear to be inconsistent with our research, our teaching and at odds with investment advice from the Bank of England.

The Grantham Institute maintains that it is essential for the College to invest only in companies whose activities are consistent with achieving the Paris Climate Change Agreement – to limit temperature rises to well below 2°C above pre-industrial levels - and more generally to invest only in companies with high, verifiable and transparent Environmental, Social and Governance (ESG) standards. Such environmental standards would likely include consideration of the impact of a company's activities on ecological biodiversity, natural resource conservation (e.g. water and soil) and the treatment of animals, for example. This approach is likely to exclude a number of companies from our investment portfolio but will reward others that are tackling climate change and wider environmental issues strategically and at the necessary scale.

In this submission, we outline the scientific, moral, financial and reputational reasons for adopting such a position and the opportunities that it brings.

The scientific and moral rationale

As a STEM-B institution, Imperial College's SRI policy needs to reflect the latest understanding of climate science and the urgency with which greenhouse gas emissions must

be reduced to avoid the worst consequences of climate change. The 2015 United Nations Paris Agreement set out the goal to keep global temperature rise this century well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C.

In October 2018, with significant input from Imperial, the Intergovernmental Panel on Climate Change (IPCC) determined that to avoid a 1.5°C rise in temperatures, emissions of carbon dioxide need to halve by 2030 and reach net zero by around 2050. The report emphasised that every fraction of a degree Centigrade matters in terms of the impact it would have on society and the natural world. For example, “limiting global warming to 1.5°C, compared with 2°C, could reduce the number of people both exposed to climate-related risks and susceptible to poverty by up to several hundred million by 2050” [3]. Failure to meet the Paris Agreement would very likely be catastrophic for vulnerable communities and ecosystems around the world.

At the launch of the IPCC 1.5°C report at Imperial, Claire Perry (Minister of State at the Department for Business, Energy and Industrial Strategy) requested that the UK Climate Change Committee advised how the UK Government can achieve a net zero emissions target by 2050. In June 2019, Prime Minister Theresa May announced at Imperial that the 2008 UK Climate Change Act was going to be revised to achieve the net zero ambition, and this became law shortly afterwards. As a consequence, the UK now has a legally-binding target of net zero carbon dioxide emissions by 2050. Our institution was directly associated with these announcements – a reputational link that we should take seriously.

A maximum of 580 Gigatonnes (GtCO₂) of carbon dioxide can be emitted to maintain a 50% chance of remaining under the 1.5°C threshold is. Globally, we are emitting just over 40 GtCO₂ a year so, at the current rate, we will have burned through this carbon budget in the next 15 years. The speed with which society must move away from a fossil fuel-based economy is therefore rapid, and strong leadership is necessary.

In response to the need to reduce greenhouse gas emissions, many of the world’s largest companies (e.g. GlaxoSmithKline, Microsoft, Unilever) have signed-up to the ‘Science-Based Targets’ initiative [4], run by the UN Compact, Carbon Disclosure Project, World Resources Institute and WWF. Companies participating in the initiative have set carbon reduction targets consistent with the Paris Agreement and those targets are validated by the project. At present only two oil and gas companies (Fluxys and CGP Primagaz) are participating in the initiative and no other fossil fuel companies have a greenhouse gas emission reduction target consistent with the Paris Agreement.

The scientific and moral case for reducing greenhouse gas emissions to zero by 2050 is straightforward and unambiguous. The Science-Based Targets initiative offers one tool to identify the suitability of companies for our investment from a climate change perspective. At the moment that would necessitate the sale of all current fossil-fuel investments in the College endowment (e.g. BP, Exxon Mobil, Equinor, Royal Dutch Shell) as none possess an emission reduction target consistent with avoiding a 2.0°C rise in global temperatures. We acknowledge that some of these companies publicly accept the IPCC’s findings and have a commitment to assist the transition although none are working as hard on this as they could or should.

Another approach could be the establishment of strict criteria for investment that could for example include: 1) not investing in companies who hold coal assets, 2) not investing in companies who are engaged in ongoing fossil fuel exploration, 3) ranking remaining companies based on their action on climate change and shifting investments to the most progressive companies, possibly within sector groups. Should such an approach be adopted, we would recommend the establishment of a sub-group including, amongst others, experts from the Business School, CEP and the Grantham Institute to identify and periodically reassess the criteria.

It is worth noting that many of the fossil fuel companies we hold investments in (e.g. Exxon Mobil, BP, Shell) have also spent significant sums of money lobbying against meaningful

climate action [5] – in many cases by casting doubt on the scientific consensus for climate action [6]. It is our firmly held view that the College endowment should never invest in companies that, directly or indirectly, discredit the work of our scientific community.

The financial rationale

If society is to meet the targets set by Paris Agreement, a significant proportion of ‘assets’ held by fossil fuel companies must remain in the ground. A 2015 *Nature* article [7] concluded that a third of oil reserves, a half of gas reserves and more than 80% of known coal reserves must remain unused in order to meet the Paris Agreement. This poses a financial risk for investors in companies who own fossil fuel assets as they may become ‘stranded’ – they will be effectively ‘unburnable’. As Jeremy Grantham states in his 2018 White Paper, “if you’re messing around with oil stocks, you’re taking the serious risk of ending up with stranded assets” [8].

A 2019 report by Vivid Economics [9] for the UN-backed Principles for Responsible Investment (PRI) concluded that carbon-intensive firms are likely to lose 43% of their value thanks to policies designed to combat climate change while the most progressive companies will see an uplift of 33% in their value. A similar report conducted by Mercer [10] assessed the effects of both climate-related physical damages (physical risks) and the transition to a low-carbon economy (transition risks) on investment return expectations. In their scenario where global warming is limited to 2°C (Figure 1), the oil and gas sector would see a 42% cumulative loss of value by 2030 and 95% loss by 2050 while the renewables sector would see a 106% cumulative value gain by 2030 and 178% by 2050.

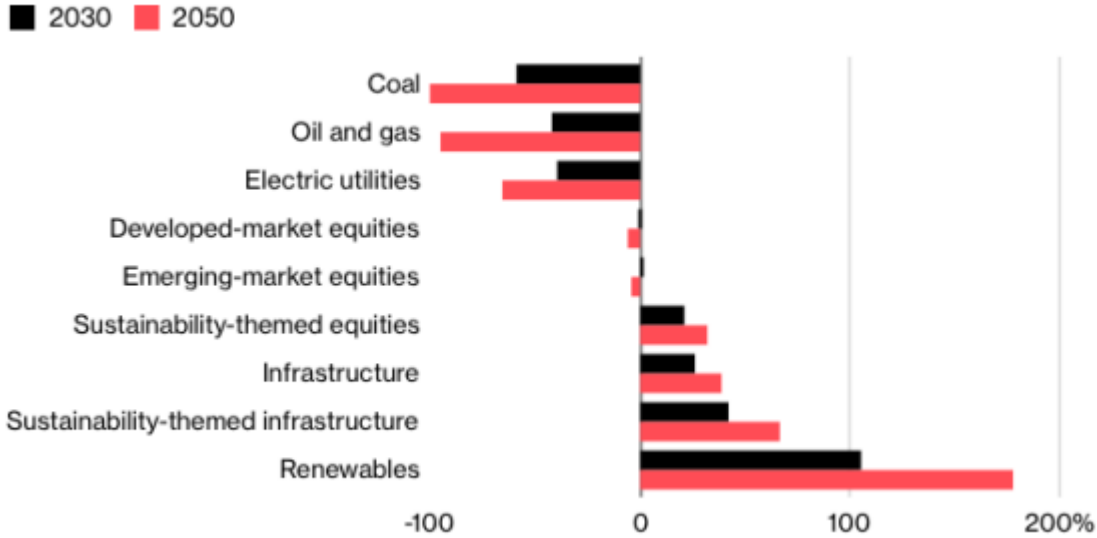
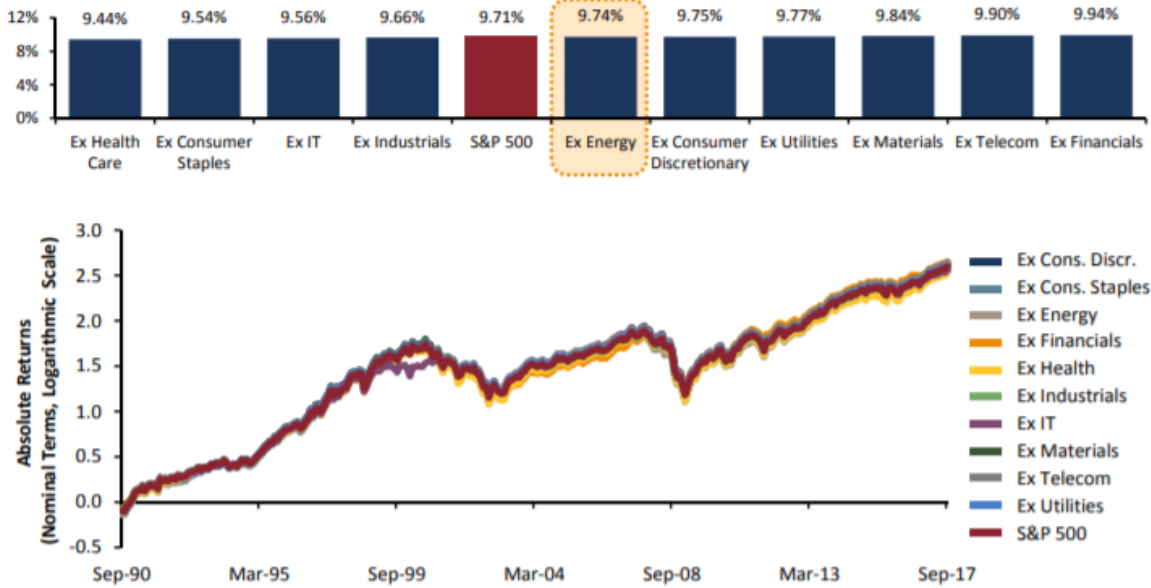


Figure 1: Sectoral impact if Global Warming is limited to 2°C. Source: Mercer, Bloomberg

In his 2018 White Paper, Jeremy Grantham presented analysis from his hedge fund (GMO) that dispelled the myth that you couldn’t move your investments away from fossil fuels without compromising performance. Grantham illustrated that, over a range of historical timescales, a portfolio that excluded fossil fuel investments would have performed virtually identically to a portfolio that had contained fossil fuel investments. In this case copied below (Figure 2) from 1989 to 2017, the portfolio without fossil fuel investments would have actually performed slightly better than the Standard & Poor 500 average for the period.

Annualized Absolute Returns (Nominal Terms): 1989-2017 – Range: 50 bps



As of 9/30/17
Source: S&P, GMO

Figure 2: Annualised absolute returns (1989-2017) excluding specific asset classes. Source: GMO

As well as avoiding the risk of investing in companies with assets that become stranded in the future, the financial performance of fossil fuel companies in the recent past is another reason to withdraw our investments in those companies. In their report on Blackrock, the Institute for Energy Economics and Financial Analysis (IEEFA) state that “in holding after holding across the coal, oil and gas space around the world, weak performance over the last decade lags the market and weakens both actively and passively managed investments” [11]. We have included three figures (Figures 3 to 5) from the IEEFA report below which illustrate the poor performance of such companies that Imperial currently holds investments in – Exxon Mobil, Royal Dutch Shell and BP.

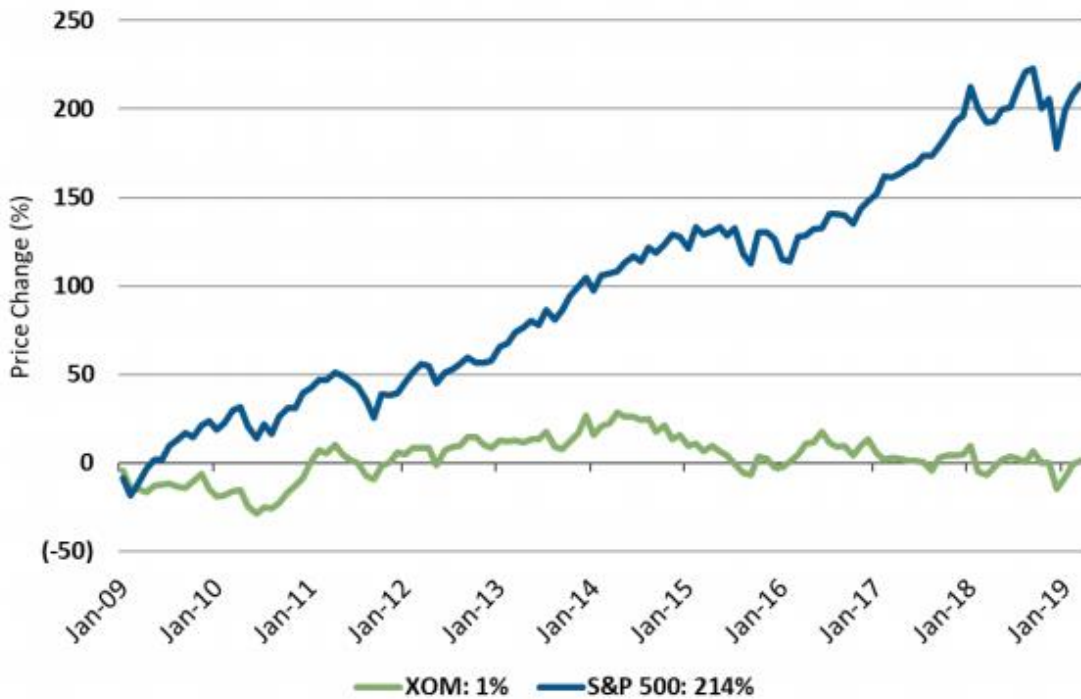


Figure 3: Performance of Exxon Mobil (Green) in comparison to the Standard & Poor 500 (Blue), 2009-2019. Source: IEEFA, S&P Global Market Intelligence

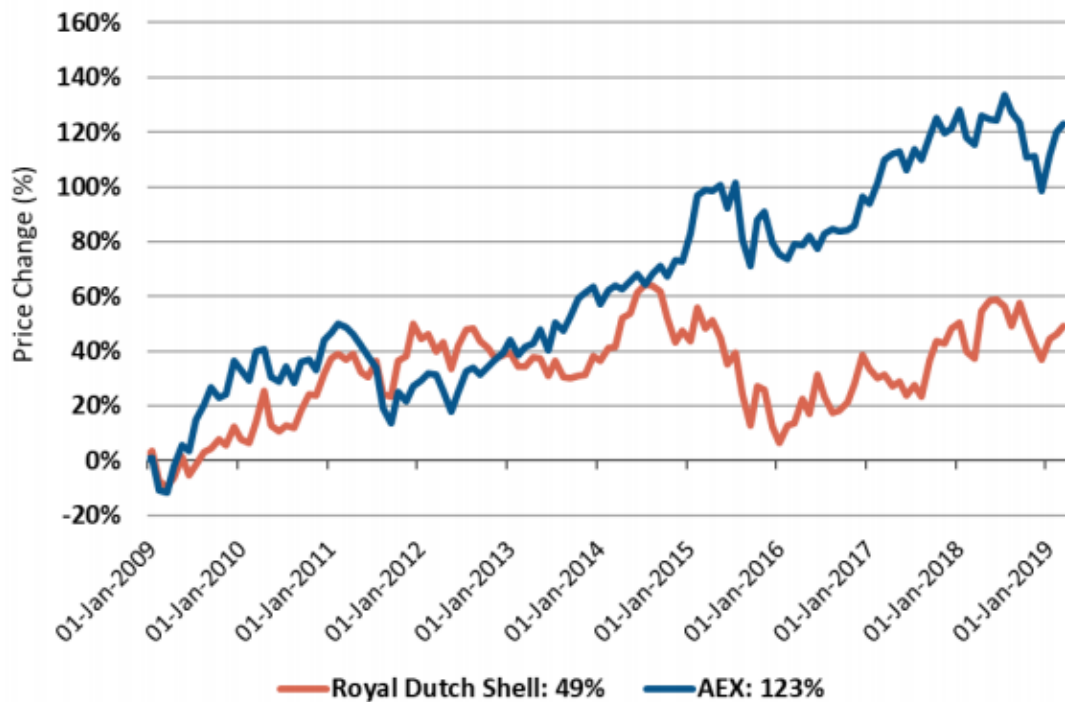


Figure 4: Performance of Royal Dutch Shell (Red) in comparison to the Amsterdam Exchange Index (Blue), 2009-2019. Source: IEEFA, Thomson Reuters

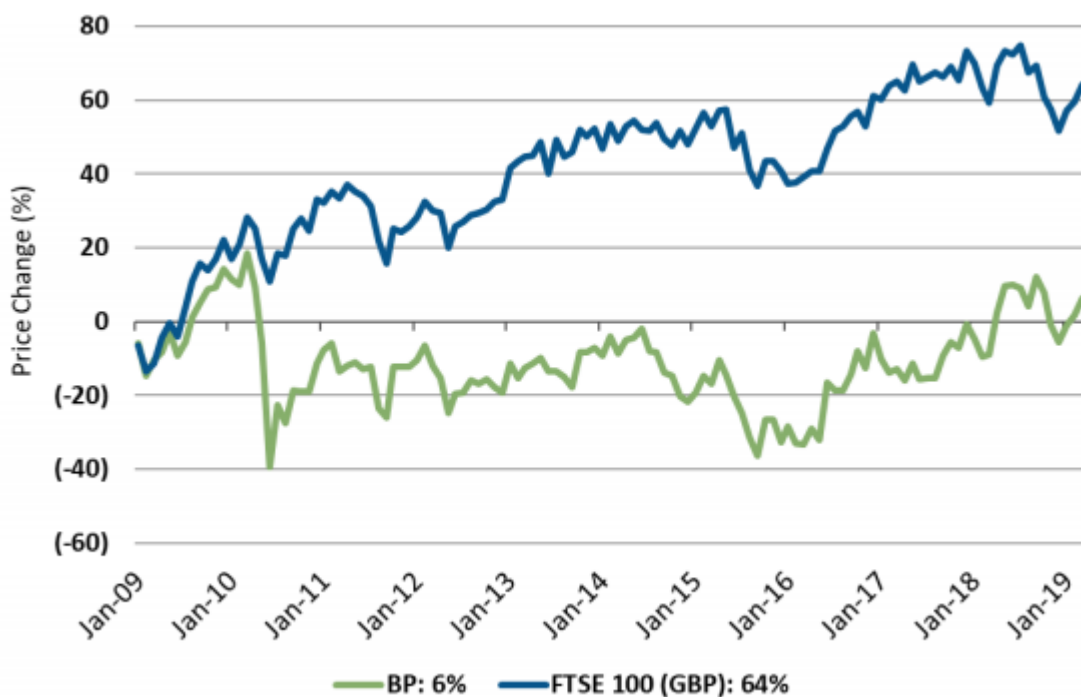


Figure 5: Performance of BP (Green) in comparison to the FTSE100 (Blue), 2009-2019. Source: IEEFA, S&P Global Market Intelligence

Given the data presented above, moving our investments away from fossil fuel companies towards companies with ambitious carbon reduction targets would seem to be an appropriate strategy to avoid exposure to such risks while maximising the financial benefits of the low carbon transition and, indirectly, supporting our own research into emerging, low carbon technologies.

The reputational rationale

As a world-renowned University, it is essential that Imperial College has strong leadership on climate action. The direction of travel is away from fossil fuels towards low carbon

technologies and it would be appropriate for our investment portfolio to understand, reflect and support that. Many of our peers have already chosen to fully divest from fossil fuels (e.g. UCL, KCL, Edinburgh, Bath, Warwick) and it is a continued and serious reputational risk for the College to hold investments in companies that are non-compliant with a target of net zero emissions by 2050 at the latest.

The youth climate strikes illustrate the strength of support for climate action from prospective students and our position in the People & Planet University League (130th out of 154 universities in the UK [12]) is already a notable reputational problem. To continue to attract the brightest students and staff to study and work at the university, and to support the vital research and translation being conducted here, Imperial College needs strong leadership on climate change and this involves a rigorous ethical investment policy that avoids investments incompatible with the UK Climate Change Act.

Summary

Once again, we welcome the opportunity to respond to the SRI policy consultation. We suggest there are clear scientific, moral, financial and reputational reasons for shifting our investments from funding the climate emergency, to solving it. This should happen immediately, because of the urgency of the challenge, and to reflect our leadership role in understanding, and therefore acting, on this issue. We would be delighted to present verbal evidence to elaborate on the views outlined in this response as necessary.

Yours sincerely,

A handwritten signature in blue ink that reads "Martin Siegart". The signature is written in a cursive, slightly slanted style.

Prof Martin Siegart
Co-Director, Grantham Institute – Climate Change and Environment

References

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- [12] People & Planet, "Imperial College London 2019 scorecard," [Online]. Available: <https://peopleandplanet.org/university/129377/ul19>. [Accessed 16 Dec 2019].