

Half of all funds labelled ‘climate-focused’ still don’t measure against a climate benchmark, according to Pensions for Purpose

- 49% of all climate-focused funds analysed don’t use a climate index benchmark
- 92% of active managers don’t use climate benchmarks, but 81% of passive managers do
- Index over-proliferation can be a concern for pension funds seeking to compare carbon emissions between funds

London, 23rd March 2022: New [research from Pensions for Purpose](#), the fast-growing organisation which helps pension funds invest for impact, shows that active asset managers aren't using climate indices to benchmark their carbon metrics, despite their funds being marked as ‘climate focused’.

Instead, 73% of active climate focused funds are benchmarked against the market capitalisation index rather than a climate index, from both a financial and climate impact perspective. A further 19% of active climate focused funds don’t have any benchmark at all.

Fund benchmark	% of active climate-focused funds aligned against benchmark for climate impact	% of passive climate-focused funds aligned against benchmark for climate impact	% of all climate-focused funds aligned against benchmark for climate impact
Market capitalisation	73%	19%	49%
No benchmark	19%	0%	10%
Climate transition	5%	23%	13%
Paris aligned	3%	23%	20%
Low carbon	0%	17%	8%
Positive impact	0%	17%	8%

Climate benchmarks give managers specific objectives related to the greenhouse gas emissions in a fund’s portfolio. The research states that the concern is, active asset managers are opting for an easy life.

Karen Shackleton, Chair and Founder, commented: “We were surprised by the number of climate focused active funds which don't benchmark themselves against a climate index. The question this raises is whether active managers could set a higher bar when considering their carbon footprint, by benchmarking against a climate index rather than comparing themselves with the market capitalisation index which has much higher carbon metrics, even if they keep the market cap index as the performance benchmark.”

According to the research, 142 different climate carbon benchmarks are being used across just 212 funds, with no commonality in the choice of benchmark used. This lack of standardisation makes it harder for investors to compare one fund against the other when making a fund selection decision. The asset managers interviewed for the research had mixed views on whether there will be a move towards consensus benchmarks or a shift towards more tailored benchmarks designed to meet pension funds’ specific climate goals.

The research also showed the unexpected impact on carbon metrics when shifting from Low Carbon to Paris Aligned benchmarks. A pension fund investor could experience an increase in carbon footprint if relying on the same metric to evaluate performance against carbon objectives. For

pension funds tracking their carbon footprint year-on-year, this is an important insight as the switch could result in a temporary increase in their portfolio carbon measure.

Karen Shackleton continued: “Overall, it’s important for pension funds to have clarity in their investment beliefs – what is the pension fund trying to achieve? - as well as how success in the fund’s climate action approach will be assessed over time. What comparators, for example, what benchmarks, will be used to make that assessment?”

The research was conducted with 24 leading asset managers representing approximately \$32 trillion in assets under management (AuM), who offer climate-focused funds to UK pension schemes and contains responses from State Street Global Advisors and Fulcrum Asset Management, giving the views of both active and passive managers on climate benchmark tracking.

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NOTES TO EDITORS

Link to research: <https://www.pensionsforpurpose.com/knowledge-centre/thought-leadership/2022/03/02/Industry-trends-in-climate-indices-Pensions-for-Purpose/>

About Pension for Purpose:

Pensions for Purpose exists as a bridge between asset managers, pension funds and their professional advisers, to encourage the flow of capital towards impact investment.

Impact investments are investments that align with the environment and society. Pensions for Purpose seeks to empower pension funds through our online member platform, from which we deliver training, afternoon teas and events, member forums, and a unique knowledge centre.

About Karen Shackleton, Chair and Founder of Pensions for Purpose:

Karen has worked in the finance sector for over 30 years. As well as being Founder of Pensions for Purpose, she is Deputy Chair of the Strategic Investment Board for the Ministry of Justice and a non-executive director and Chair of the Board of Resonance Ltd, a social impact investment company. She sits on the Advisory Council of the Impact Investing Institute.

Karen also provides independent investment advice to the London Boroughs of Islington, Camden and Hounslow through MJ Hudson. She was the Chief Executive/Managing Director of AllenbridgeEpic Investment Advisers from 2010 to 2013. Prior to that, she had ten years’ experience as a fund manager and director for County NatWest and BZW Investment Management (now BlackRock).

Participants in the research were:

abrdn	Investments	Legal & General Investment
AllianceBernstein	Federated Hermes	Management (LGIM)
Amundi	Franklin Templeton Investments	Lombard Odier Investment
Aviva Investors	Fulcrum Asset Management	Managers
AXA Investment Managers	HSBC Asset Management	Morgan Stanley Investment
Baillie Gifford	Invesco	Management
BlackRock	JP Morgan Asset Management	Natixis Investment Managers –
Columbia Threadneedle	Jupiter Asset Management	Mirova

Newton Investment Management State Street Global Advisors
Pictet Asset Management WHEB
Schroders

Press contact:

Jessica, Material Impact Marketing Communications:

Email: Jessica@wearematerialimpact.com

Mob: +44 (0)7539 738655