

PENSIONS FOR  
PURPOSE

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# Climate indices – industry insights

Baillie Gifford and Pensions for Purpose  
Morning coffee discussion

MARCH 2021

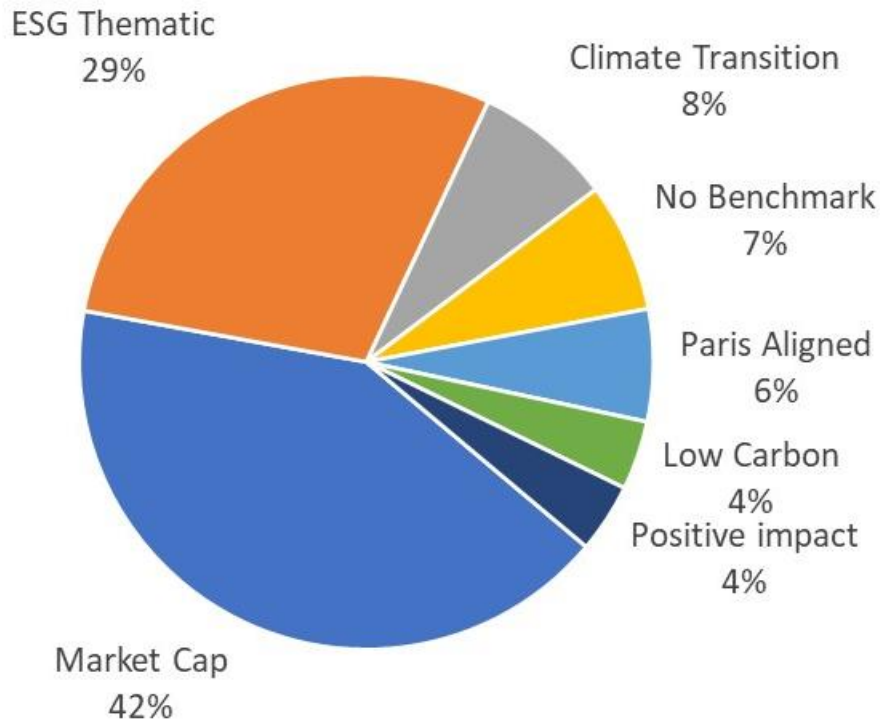
**Karen Shackleton**  
Pensions for Purpose



- Interviews/questionnaires with 24 asset managers
- 108 climate-focused funds
- A further 104 with a broader ESG thematic approach
- Detailed list of funds available to asset owners and professional trustees/independent advisers, on request
- Research by Karen Shackleton and Lewis Kilbride (intern)



## Breakdown of fund benchmarks



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# Choosing a climate index

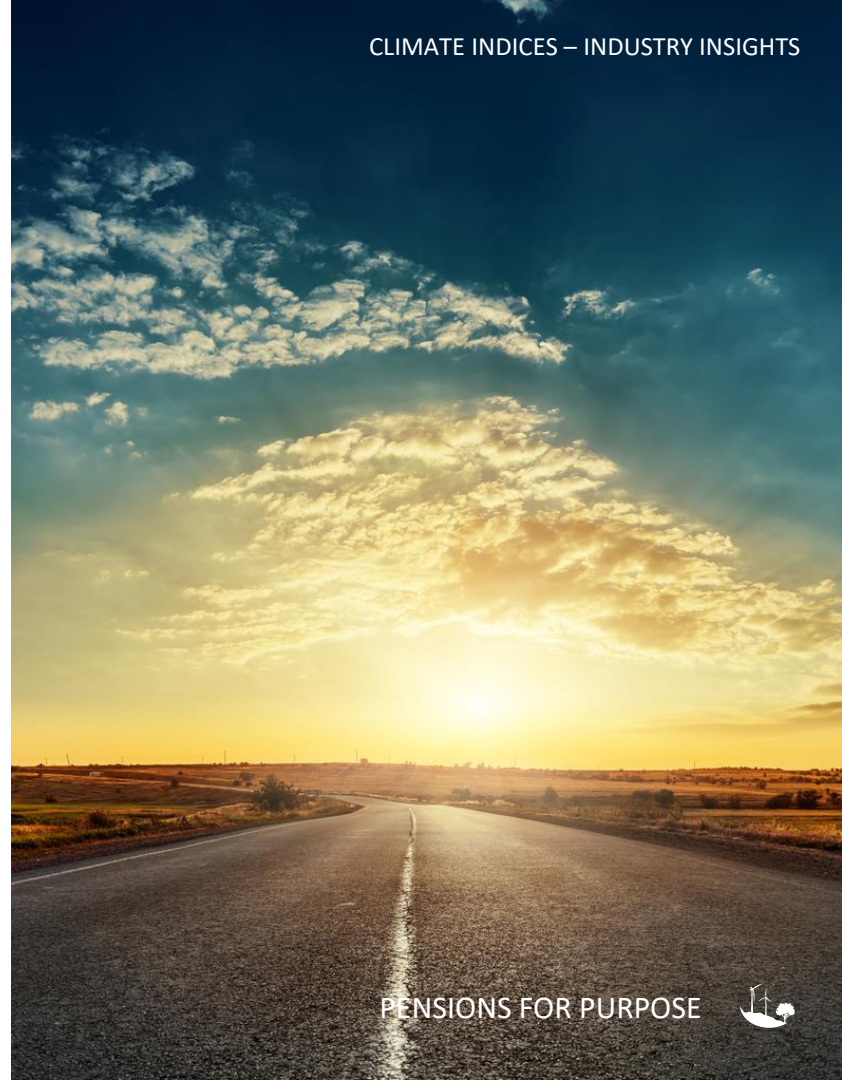
## Three broad groupings:

- **Low carbon**
  - ✓ Good first move for index tracking funds
  - ✓ Immediate reduction in carbon metrics
- **Climate transition**
  - ✓ Good for maintaining exposure to companies on a climate transition path
  - ✓ Some baseline exclusions
  - ✓ First step towards Paris Alignment
- **Paris aligned**
  - ✓ Good for funds who are declaring net zero targets
  - ✓ More baseline exclusions
  - ✓ Forward looking goals

## Passive managers' observations

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- Trustees tend to move from passive to low carbon to climate transition or Paris aligned indices
- Regulatory environment driving change especially with smaller schemes
- Choice of benchmark reflects wider investment beliefs too – the S and G
- Large investors looking for bespoke, tailored indices and segregated portfolios
- Moving from low carbon to Paris aligned indices can initially result in higher carbon metrics (Scope 1 and 2)



# Insights on active managers

## Key insights:

- 92% of active managers don't use climate benchmarks (Baillie Gifford is an exception!)
- Reasons given include:
  - Different methodologies used in climate indices
  - Opacity in the goals
  - Climate transition was about engagement not stock selection
  - Climate indices aren't genuinely aligned to 1.5°
  - Priority given to decarbonising not climate solutions
  - High licence fees
  - Investor preference



# For reflection...

- Little consistency in the industry on this issue
- An active vs passive distinction

Fund benchmark	% of ACTIVE climate-focused funds aligned against benchmark for climate impact	% of PASSIVE climate-focused funds aligned against benchmark for climate impact
<b>Market capitalisation</b>	73%	19%
<b>No benchmark</b>	19%	0%
<b>Climate transition</b>	5%	23%
<b>Paris aligned</b>	3%	23%
<b>Low carbon</b>	0%	17%
<b>Positive impact</b>	0%	17%

- Are active managers setting the bar high enough?
- Be clear on what your goals are. What do you actually want to achieve? Will this manager deliver to that?
- A fast evolving space - where will we be in 3-5 years' time?





**THANK YOU**