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The Gap Between Commitment and Reality on Climate Change

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Research by MarketMeter finds that climate risk management is close to the bottom of investment priorities in a sample of 115 institutional investors. This remains relatively unchanged over the past year, despite increased rhetoric by major firms that they are engaging with the opportunities and risks associated with the climate crisis. So is this just corporate greenwashing, or are there deeper issues at play?

Global warming is having an increasing impact on society with more frequent and intense heat waves, droughts and flooding across the world. The last year has seen record-breaking flooding in Australia, India and Africa, and wildfires in Europe and the US. As climate impacts increase, so too have the promises of action from governments, business and investors.

Globally, many companies are announcing green products and net-zero emission targets. 73 asset owners (inc. super funds) with US$10.6 trillion in assets and 273 asset managers with assets of US$61.3 trillion have committed to achieve net-zero investment portfolios by 2050. These commitments include some of the largest investors in the world like BlackRock, Vanguard and State Street.

However, recent headlines have cast doubt over the veracity of these commitments. In the US, the SEC has charged BNY Mellon Investment Adviser for deceptive ESG investment conduct. The SEC has also opened an investigation into some Goldman Sachs ESG funds. In Europe, the emergence of a whistle-blower at Deutsche Bank and accusations of greenwashing led to a police raid and the resignation of their CEO.

In addition to regulator action, the market is also responding to greenwashing concerns, with Morningstar cutting 1,200 funds from its European sustainable funds list after a review.

Understanding the reasons for these gaps between commitment and action is crucial if markets are to respond to and address climate risks.

In 2021 approximately 90 Australian institutional investors and equity analysts were surveyed by MarketMeter[1] to assess how they prioritised a set of 27 corporate performance metrics. Climate risk management ranked in the bottom quartile of performance metrics considered by professional investors. The 2022 version of the research, with its sample size of 115 institutional investors, found that **climate risk management was still close to the bottom of investment priorities**. Despite climate disasters, the increased urgency of the Glasgow COP and the rush of climate commitments by investors globally, climate risk continues to be downplayed.

To explore this, we asked institutional investors about their attitudes and beliefs towards climate risk. They told us:

The markets are already responding at the right pace

63% of institutional investors indicated that they were satisfied with the awareness of and response to climate change by the management teams of listed companies. This was supported by investor views that an orderly transition is required when responding to climate change to protect the economy, despite huge disruptions in energy markets and the fallout from the AGL shareholder action.

"It's a slow moving beast and careful analysis is needed before making decisions so the current pace seems adequate"

Yet their attitude toward climate risk has changed in the past 12 months

64% of institutional investors said their attitude towards climate risk has changed in the past 12 months. A key focus is the impact the Russia/Ukraine war might have on climate change and energy security, which may accelerate investment in renewable energy. In addition, 59% of investors expect a company's value to be enhanced if it has strong climate credentials.

"Climate risk has taken a slight backseat to the broader energy crisis underway at the moment… this is likely to swing back in the not too distant future."

So is this greenwashing or a lag in investors embracing their own perceptions?

The results suggest a disconnect where investors see value in incorporating climate risk, but they don't prioritise it. They also believe markets are responding fast enough, despite energy stocks rallying as temperatures soar and wildfires burn.

There are many explanations for these disconnects. In A 2020 CFA institute survey only 11% of investors felt they were proficient at integrating sustainability into their investment analysis, pointing at barriers including a lack of data and regulatory imperative to act. In addition, the focus on the Russia/Ukraine war in the MarketMeter survey highlights how immediate concerns can overshadow perceived long-term concerns around climate change.