



**The Pension Boards**  
United Church of Christ, Inc.

WHERE FAITH AND FINANCE INTERSECT

# Climate Investment Policy Background

*PBUCC will continue to lead on climate change. We are proud to be a member of Climate Action 100+, to be considering the United Nations convened Net-Zero Asset Owner Alliance, UNPRI, and ICCR which commit us to the same goal we are setting for the largest emitters in our portfolio.*

# Climate Investment Policy Background

## Climate change is a systemic risk to long-term diversified investors.

Investors, along with many other market participants and regulators, recognize climate change as a systemic risk that will create significant costs to the economy, and in turn, will significantly impact portfolios for long-term diversified shareholders. The Commodity Futures Trading Commission (CFTC) issued a report in 2020 stating that climate change could pose systemic risks to the U.S. financial system and called for all relevant federal financial regulatory agencies to “incorporate climate-related risks into their mandates and develop a strategy for integrating these risks in their work, including into their existing monitoring and oversight functions.”

Climate risks are often categorized as their own category of risks, but they are not independent of existing financial risks (i.e., market risk, credit risk, liquidity risk, etc.) within current market structures and market regulation. Rather, climate risks intersect these common financial risks, compounding the potential shocks to the financial system. Researchers have attempted to estimate the long-term costs associated with climate change. A study done by the Swiss Re Institute in 2021 conservatively estimated the economic losses to GDP from climate change will be 11% globally by 2050 under a 2.0 degrees C warming scenario, with nearly 7% in North America (this increases to 18% and 9.5% respectively under a 3.2 degrees C warming scenario).

To put these figures in context, global economic losses from the 2008 Great Recession were nearly 4%. Commodity Futures Trading Commission, “Managing Climate Risk in the U.S. Financial System,” September 2020, pg. 49.

This is a major concern to diversified shareholders, or “universal owners,” because there is a linear relationship between GDP performance and diversified portfolio returns over the long term, meaning the expected economic losses from climate change and other systemic risks will have a significant negative impact on the long-term returns of their portfolios.

## The Importance of public disclosure of climate information and risks to investors:

As universal owners are broadly invested in the market, they are exposed to the systemic market risks driven by climate change, which cannot be effectively mitigated through traditional portfolio management approaches to reduce idiosyncratic risk. For example, a diversified investor whose portfolio selection criteria prioritizes companies that have set ambitious GHG emissions reduction targets and demonstrate sound climate risk oversight to reduce security- and portfolio-level climate risks is still highly exposed to the systemic risks from climate change driven by high-emitting activities of companies outside of its own holdings.

PBUCC identifies as a universal owner and/or views climate change as a systemic threat to the long-term value of its portfolios. In the CFTC report, the agency noted that public, consistent, and comparable disclosures will be a critical tool to overcome today’s barriers to understanding, measuring, and managing these complex climate-related financial risks and that the existing voluntary disclosure regime has not resulted in disclosures of a scope, breadth, and quality to be sufficiently useful to market participants and regulators.

(The SEC’s proposed rule on climate disclosures is a significant and comprehensive first step towards addressing this gap in essential information available to investors enabling them and other market participants to address the systemic risks and associated financial costs of climate change. However, this new rule has not been passed as of this writing.)

## The Importance of a Just Transition:

Decisions to cut emissions can affect jobs, livelihoods and a community's tax base as well as its economic and social fabric. Failure to address these impacts may be unjust and a missed opportunity. The resistance generated by workers and community groups unfairly burdened by the energy transition would cause dangerous delays in meeting the Paris Agreement's goals. Put simply, if we are to have a successful transition to a low-carbon future, it must be a Just Transition, or in other words, "a just world for all." Creative solutions will be needed to accomplish both goals at once.

A company's impacts on workers and communities in the transition are often informed by its plans and commitments to phase out fossil fuels and invest in clean energy solutions. Because the renewable energy sector is a source of good jobs, it is important that the renewable energy projects (taking the place of fossil-fuel generated transportation and industrial sectors) also be living wage jobs, with benefits. For the most part, jobs in the renewable energy sector are NOT unionized, although investor and societal concerns about this issue can change the calculus. This is an important area for those investors concerned about ensuring a just transition.

## The Need for Rapid Decarbonization and Massive Capital Investment:

Wood Mackenzie (a global research and consultancy group) has estimated that at least \$50 trillion in investment will be needed globally to reduce GHG emissions by 2050 to meet the Paris goals, and roughly half of that money needs to go to areas such as wind and solar power and battery storage. Another \$18 trillion is needed to modernize the electric grid, in part to transition to cleaner energies such as solar and wind. The Biden Administration is calling for billions in clean energy infrastructure investment and other climate spending to accelerate this transition in the U.S, further amplifying market signals that investment in solutions for decarbonization are needed now.

Yet, U.S. utilities are underinvesting in renewables and continue to double down on fossil fuels. According to a study of utilities responsible for 43% of U.S. electricity generation, these companies plan to add 250 MWh of new wind and solar to the grid between 2020 and 2030, which is equivalent to *only 19%* of their current coal and gas generation. This same study found that 32 of the 79 operating companies assessed are planning to build new gas plants totaling 36 GW through 2030, and that these 79 companies have only committed to retire 25 percent of their coal generation by 2030. This discrepancy underscores the inadequate investment in clean energy from utilities that is needed to bring about a swift transition to a decarbonized energy grid. Furthermore, the Rocky Mountain Institute found that utilities and other investors are planning to invest over \$70 billion in new gas plants through 2025, even though 90 percent of those plants would be more costly than building out equivalent clean energy.

This continued reliance on natural gas is, in part, driven by the classic utility business model which incentivizes capital-intensive infrastructure projects. In regulated markets, Public Utility Commissions authorize repayment by ratepayers, with a guaranteed rate of return, for approved capital-intensive infrastructure projects undertaken by utilities. Large infrastructure projects continue to be a source of revenue for utilities. In addition, long duration storage will be increasingly needed to handle the day-to-day and seasonal variability of wind and solar generation and to boost grid resiliency. Technology development as well as cost-decreases are needed for batteries to be a key part of the solution.

## Concerns about Stranded Assets:

Investors are increasingly concerned about stranded natural gas assets as the gas infrastructure being built now will last decades. Companies themselves are beginning to acknowledge these stranded asset risks. Additionally, there are growing concerns about investments in potentially false solutions that prop up the fossil fuel industry and/or come with major safety and climate risks, such as a reliance on renewable natural gas, of which there is a limited supply, or hydrogen, rather than a reduction of new gas production and associated emissions. Investors can play an important role in addressing these challenges by collaborating with affected communities and integrating Just Transition concerns in their engagements with publicly traded companies.

The future of publicly traded companies in a decarbonized world will require a significant shift in business model to incentivize investments in a decarbonized and distributed energy system that prioritizes clean energy, customers, communities and workers. Many of the changes in incentives will ultimately be driven by policy and regulation. Recognizing this important lever, investors will need to use their influence to support public policies and industrial strategies that align with Just Transition principles.

## Current PBUCC Strategies to Address Climate Change:

PBUCC affirms the goal of the alignment of its portfolios with the Paris Agreement's goal of maintaining global temperature rise below 1.5°C. This alignment includes attention to the impact on workers and communities of a rapid transition to a Paris-aligned economy. These concerns, generally characterized as relating to a "just transition," are also relevant to enterprise risks. Many investors, including PBUCC, ICCR members and other investment organizations, currently recognize that if such issues of human capital, and the impact on workers and communities in the transition are not effectively managed, the disruptive impact on livelihoods and public well-being will serve as social headwinds against the rapid transitions that are necessitated by climate change.

To wit, PBUCC has adopted several strategies, each of which are enumerated and defined, with examples in the attached chart. These strategies apply not only to the mitigation of climate change, but also to ESG investment generally throughout the portfolio. They include **Alignment** (Exclusionary investing or screens, i.e., coal and tar sands); **ESG Integration** (Integrating ESG factors into active investment analysis, i.e., investment in Lombard Odier Climate Transition fund); **Impact Investing** (strategies to generate measurable environmental impact with market rate return, i.e., NB, Lumos, Encap, etc.); and **Engagement** through direct corporate engagement, collaboration with investors who share our values and universal ownership strategies.

An example of the effectiveness of *engagement* is a 2022 proposal at Boeing Inc. focused on encouraging the company to address an aspect of the Climate Action 100+ Net Zero Benchmark calling on companies to develop targets and a plan to reduce their Scope 1-3 GHG emissions to net zero, improve climate governance, and provide specific climate related financial disclosures. The Climate Action 100+ initiative is a coalition of more than 617 investors with over \$55 trillion in assets. The 2022 proposal at Boeing focused on a single indicator of the benchmark, an Indicator titled "Net Zero GHG emissions by 2050 (or sooner) ambition" (Net Zero Indicator), which seeks disclosure on whether the company has set an ambition to achieve net-zero GHG emissions by 2050 and whether such ambition explicitly includes scopes 1, 2, and relevant scope 3 (including product) emissions.



In an unusual move, Boeing did not oppose the shareholder proposal but instead supported it. The vote in favor of the proposal was one of overwhelming support with 91.4 % of voting shareholders supporting it. In expressing support for the proposal, Boeing noted that “We consider climate change to be an urgent issue and we are devoting significant resources in support of net-zero emissions in Boeing operations and for our industry. We have previously demonstrated our commitment to transparency in climate disclosures, and we urge shareholders to support this proposal in furtherance of our efforts. Boeing is actively developing low-carbon transition plans to meet long-term goals with meaningful milestones, and we look forward to continuing to implement the proposal’s objectives by being transparent with our stakeholders on our progress toward these goals.”

## **Faith and Finance: PBUCC’s Commitment Over Time**

A major change for PBUCC in ESG investing came in 2014 with the adoption of Socially Responsible Investment Guidelines in the Investment Policy. Then, in 2015, PBUCC adopted a general policy called, “Faith and Finance”, clearly stating the values and direction of serious company wide focus on climate, human rights and governance issues, not only in investing, but throughout all company activity. Also in 2015, the Northern Trust Global Sustainability (ESG focused) Fund was first offered to participants in the Annuity Plan in the accumulation phase.

Then in 2016, the investment team began integration of ESG and impact into advisor selection, and Imprint Capital, subsequently bought by Goldman Sacks, was brought in to consult in this process. Several direct investments in private equity and other funds, including fixed income investments in Green Bonds followed in 2018 through 2022. These were capped by the creation of the Sustainable Balanced Fund in 2021. That year marked the first Climate Symposium intended to educate and inspire trustees and staff alike in the possibilities of climate solutions and commitments, and the second climate symposium followed in 2022. Fixed income strategies in Green and Social Bonds reached \$888 Million in 2022.

PBUCC, with assistance from GSAM analysts completed an ESG integration review of 20 outside managers with a detailed assessment of their ESG integration which has formed a baseline for proceeding with additional measurement of the climate related effectiveness of these investments. While four of these managers ranked “high” in ESG integration, there is growth and development possible in the moderate scores of other managers assessed. A complete diagnostic of the Sustainable Balanced Fund was also undertaken with the key takeaways that it is outperforming its benchmark on environmental impact themes.

## **Now and beyond – Toward a More Comprehensive, Defined and impactful Climate Policy**

PBUCC now looks back at steps taken and considering the urgency of Climate Change response and the need for science-based goals and measurements, seeks a more defined policy on climate to guide the future. The process of creating effective climate investment policy is not a destination, but a journey that will be marked by diligence, deliberation, testing and aspiration. Let us begin.

## Proposed Future Strategies

1. Continue to engage in a multi-stakeholder, place-based consultative process to inform ongoing investor engagements with key companies on adoption and implementation of net zero targets in the pursuit of just transition. Expand this approach to regions where target companies operate, and whenever possible collaborate for scale and effect.
2. Engage companies on the importance of aligning their climate lobbying with the Paris agreement, including at a local and state level, and the importance of elevating supportive climate lobbying in their list of lobbying priorities.
3. Given the importance of policy in the energy transition, investors will lend an investor voice to strategically important policy opportunities affecting decarbonization plans. This work would be in coalition with groups resourced to pursue policy work.
4. Continue seeking both impact and ESG integrated investment opportunities by engaging with best-in-class managers and direct investments; and by continuing to develop appropriate metrics for measuring and assessing climate impact across managers and portfolios.
5. We will consider our portfolio's carbon impact from the vantage point of:
  - Carbon metrics: To understand the source of current GHG emissions in the portfolio, identify which industries may be most impacted by future developments, for example, a price on carbon.
  - Asset class carbon metrics: Metrics chosen as more relevant to decision-making within each asset class (i.e., Weighted Average Carbon Intensity for fixed income vs. Metric tons CO<sub>2</sub>e per \$NAV for Real Assets)
  - Climate scenarios: To understand the potential trajectory of emissions across our portfolio.
  - Risks/opportunities: To begin relating climate metrics to financial risk.
6. Net-Zero Target: We will undertake a 1.5 degrees Celsius transition risk assessment with average physical risk at the enterprise level for companies in our portfolios. This helps us understand the risks and opportunities to our current public market portfolio if the world moves toward 1.5 degrees Celsius alignment
7. We will maintain our commitment to the double bottom line to protect the financial well-being of our members while doing as much good for the environment as possible. And we affirm the values of Faith and Finance at the Intersection of Faith and Sustainability as our guiding star.

**NET  
ZERO**  
EMISSIONS



## Conclusions

Climate change poses an urgent and complex challenge for investors.

In conducting climate change analysis across our portfolio, PBUCC observes the breadth and depth of risks across the total fund, and opportunities in the transition to a low-carbon economy.

Climate change is a systemic risk which must be managed and mitigated through global cooperation between the public and private sectors in partnership with civil society. With our long-term investment horizon and multiple generations relying on us for pension security, PBUCC believes that the shift to a sustainable low-carbon global economy is vitally important to our ability invest our members' assets and earn our target rate of return upon which they rely for the payment of benefits.

PBUCC portfolios should track the potential of the global economy to produce global warming at less than 3.23 degrees Celsius which would produce unparalleled impact.

We believe our strategy of advocacy, engagement, integration and partnerships is showing promise, and we must stay the course, maintain our focus and redouble our efforts with our partners to keep global warming to 1.5 degrees Celsius.

For an intergenerational universal owner, there is nowhere to hide. With PBUCC's funding status and target rate of return, PBUCC acknowledges that our strategy towards a low-carbon future may differ from our peers who have different investment objectives and constraints.

The climate change transition brings opportunity. New breakthrough technologies may expedite the transition to a low-carbon economy, for example to sequester carbon emissions at a scale commensurate with the challenge. Or policymakers may yet establish a clear and stable carbon-pricing regime that gets the global economy on track for a thriving low-carbon future.

Climate risk poses systemic risk with global impact for society. It is still possible that collectively our global ambition falters and we do not rein in emissions through the combined and dynamic impact of government policy, technology breakthroughs, and major shifts in consumer demand. If so, then we enter a dangerous time of climate extremes, volatility, ecosystem collapse, vast migration, and resource scarcity.

PBUCC will continue to lead on climate change. We are proud to be a member of Climate Action 100+, to be considering the United Nations convened Net-Zero Asset Owner Alliance, UNPRI, and ICCR which commit us to the same goal we are setting for the largest emitters in our portfolio.

We will continue to innovate through research and investment practice. We will continue to build climate resilience into our portfolio and seek investment opportunities in the low-carbon economy.

In all this work, our partnership with fellow investors, policymakers, the business sector and civil society will continue to be of vital importance. Tackling the climate crisis is urgent work, and it will take all sides pulling together if we are to meet the goals of limiting global warming to 1.5 degrees Celsius.

And finally, we affirm that our faith-based values in the tradition and history of the United Church of Christ will continue to guide and distinguish our efforts at the intersection of Faith and Sustainability.



## Resources

### 1. Utility Benchmarking reports:

- [World Benchmarking Alliance's Just Transition Assessment \(2021\)](#): Analyzes 50 global electric utilities on the WBA's just transition methodology, which includes indicators on stakeholder engagement, just transition planning, quality jobs, etc.
- [Sierra Club - The Dirty Truth About Utility Climate Pledges \(2021\)](#): Assesses the credibility of 50 U.S. utilities on their climate transition plans against the Paris agreement goals.
- [MJ Bradley - Benchmarking Air Emissions \(2021\)](#): Assess environmental performance and progress of the 100 largest electric power producers in the U.S.

### 2. Investor Expectations for a Just Transition

- [ICCR Statement of Investor Expectations on Job Standards and Community Impacts for a Just Transition](#) [Open for sign on [here](#).]
- [IIGCC/CA100+ Global Sector Strategies: Investor interventions to accelerate net zero electric utilities](#): Sets out actions the sector needs to take to decarbonize in line with the IEA Net Zero by 2050 Scenario.

### 3. Just Transition Plan Disclosure - Leading Examples:

- [Scottish and Southern Energy \(SSE\)](#)
- [American Electric Power \(AEP\)](#)
- [EDF Energy](#)

### Other

- [LSE Report: From the grand to the granular](#): Translating just transition ambitions into investor action (2021).





**The Pension Boards**  
United Church of Christ, Inc.

WHERE FAITH AND FINANCE INTERSECT

1.800.642.6543  
[www.pbucc.org](http://www.pbucc.org)