SUSTAINABLE INSIGHTS

Sustainable Insight CAPITAL MANAGEMENT

Week ending 07 March 2014 | Edition 32

NORWEGIAN OIL FUND CONSIDERS DIVESTING FOSSIL FUEL ASSETS

Oil and gas investments account for approximately 8.6% of portfolio.

Government Pension Fund Global (GPFG) the USD840bn Norwegian sovereign wealth fund, which owns about 1.3% of global market capitalization, will consult an independent panel to recommend if it should halt investments in carbon-intensive firms. The panel is expected to report back in 2015.

This follows previous proposals by the Norwegian opposition to ban the SWF from investing in coal stocks (Sustainable Insights – Edition 18).

Oil and gas investments account for approximately 8.6% of the oil fund's portfolio. It is a major shareholder in BP (BP/LN) and Shell (RDSA LN).

GPFG has a tendency to divest or rule out investments that fail to meet its ethical standards, as reported in Sustainable Insights – Edition 13 and Edition 27.

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FOSSIL FUEL ASSET DIVESTMENTS BARELY DENT PORTFOLIO RETURNS: AUSTRALIA INSTITUTE

88% of ASX 200 exposed to coal. Portfolio returns will fall by only 0.2% when fossil fuel assets are excluded.

The Australia Institute analyzed the ASX 200 index, ranked 8th worldwide in terms of carbon reserves, and found that 88% of its stocks are exposed to coal investments.

The report projected that the annual returns of a hypothetical back tested portfolio constructed by a third party reduced performance from 13.36% to 13.22% after excluding carbon intensive companies based on subjective ranking criteria over the period October 2004 to October 2013.

The report states that by divesting fossil fuel stocks, investors can avoid the risks associated with stranded carbon assets

(Sustainable Insights: Edition 15 and Edition 22).

Some of the companies at risk of divestment include Woodside Petroleum (WPL AU), Origin Energy (ORG AU), Whitehaven Coal (WHC AU), and AGL Energy (AGK AU).

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CHINA DECLARES "WAR AGAINST POLLUTION" AS US REFINERS FACES NEW EMISSION STANDARDS

China announces new policies to limit polluting industries as the US sets emissions standards that are estimated by one refiner to cost USD1.1bn in 2017.

The US tier 3 emissions standards, which are due to come into effect in 2017 for cars and light trucks, requires a two-thirds cut of sulfur in gasoline to 10 parts per million (ppm) from a current cap of 30 parts.

Compliance with Tier 3 is estimated to cost refiners USD1.1bn in 2017, a concern raised by refiners such as Exxon (XOM US). The EPA estimates that Tier 3 would raise the cost of gasoline by USD0.65/gallon, or by about 18% to USD4.2/gallon based on current prices.

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Meanwhile, China's premier Li Keqiang announced a new series of policies and plans aimed at addressing pollution. China, which has long struggled to curb big polluting industries and growth-obsessed local governments, will push to cut outdated steel production capacity by a total of 27 million tons this year, reduce cement production, and shut down thousands of small coal-fired furnaces.

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5% OF EU PENSION FUNDS EXPOSED TO POTENTIAL CARBON BUBBLE BURST: REPORT

A carbon asset bubble burst could result in the EU's large financial institutions facing losses amounting toEUR350-400bn.

The Green European Foundation analyzed 43 of the largest banks and pension funds, and several insurance firms operating in the EU, to assess their portfolio exposure to the impending global carbon asset price bubble burst and subsequent stranded carbon assets.

The total estimated asset exposures were: 5% for pension funds, 1.4% for banks, and 4% for insurance firms.

In a "Low-carbon Breakthrough" scenario, which comprises a quick and definite transition to a low-carbon economy, pension funds, banks and insurance firms would incur losses of 3%, 0.4% and 2%, respectively. In monetary terms, this equates to EUR350-400bn.

Key entities exposed to the carbon bubble include Lloyds Bank (LLOY LN), Société Générale (GLE FP), BNP (BNP FP), and BAE Systems Pension Scheme.

In Sustainable Insights – Edition 5 and Edition 15, we discussed the heightened risk of stranded fossil fuel assets and the need for investors to take steps to mitigate such risks.

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