Point of View

How Important is Clean Energy Investment to the SRI Community – and is SRI Important to Clean Energy Investors?

In summer 2010, we conducted a survey of U.S. public pension funds regarding their socially responsible investment (SRI) policy and their investments in clean energy.

The response rate to the survey was less than 10%, and the five funds that returned the questionnaire generally found SRI and reporting on environmental, social, and governance (ESG) policies not that important. Clean energy, as a category of investment, did not seem to be tracked.

Following the lack of response from U.S. pension funds, we attempted another approach – distributing the survey through a U.S. SRI advocacy group. Unfortunately, that effort was at least as dismal, yielding only one response.

Notwithstanding its failure, in terms of the response rate and the statistical irrelevance of the six completed questionnaires, we believe that it would be informative and useful to obtain survey information on the SRI and the clean technology policies of U.S. public pension funds and SRI advocacy groups. During the past five years, a plethora of institutions have analyzed these issues among other constituencies: business at large, clean technology firms, consumers, the energy industry, the financial industry, the financial media, and the investment community (for example, by the Green Transition Scoreboard® maintained by Ethical Markets). Specifically connecting SRI commitment and clean technology investment, however, has not been attempted.

Given that U.S. public pension funds are a key source of long-term financing in the U.S. financial market, their position on these topics should be of interest to other investors and public policy makers as well. Determining the extent to which clean energy investment matters to SRI advocacy groups and the extent to which they track those investments should similarly be of interest.

While our surveys did not yield many insights, they did suggest what we consider to be fundamental disconnects between the perception of those committed to SRI and the actual practices of funds with respect to clean energy investment.

Clearly, SRI is gaining traction in many countries, and a number of regional/international initiatives to promote SRI have become influential. At the same time, as more and more funds have adopted the United Nations Principles for Responsible Investment (UN PRI), the question arises to what extent clean energy investment is reflected in SRI initiatives and to what extent UN PRI signatories follow through in clear related investment policies – generally and with respect to clean technologies specifically.

In 2008 Mercer, one of the world's largest investment consultants, rated fund managers on their strategic responses to ESG issues, including "questions on the way portfolio managers incorporate the potentially 'material' costs of issues such as climate change and reputation risk on human rights and social issues in their share buy and sell decisions" (Wheelan 2008). On November 1, 2009, Bloomberg joined UN PRI and announced its new screen, including ESG data. But to what extent are strategic responses being reflected in actual investment practice?

Regulators should be interested in the answers to these questions as well. On December 18, 2008, Denmark passed legislation requiring financial institutions to report on their SRI policies, and listed companies as well as state-owned companies to report on their corporate social responsibility (CSR) policies, beginning in 2010. It will be extremely interesting to read the first edition of these reports. Recently, both the U.S. Department of State and the United States Agency for International Development (USAID) issued policy statements promoting clean energy in their activities in developing countries. Would a better understanding of U.S. investment practice provoke a look at public policy at home?

According to a 2009 survey of 90 of the Netherland's pension schemes (conducted by the Dutch Association of Industry-wide Pension Funds (VB), the Dutch Association of Company Pension Funds (OPF) and the Union of Occupational Pension Funds (UvB), 73% of the schemes have adopted a responsible investment policy. The percentage has more than doubled since 2006. Only 13 of the schemes surveyed reported that they had no policy (Wheelan 2010).

We believe it would be useful to compare U.S. pension funds with their peers in other countries – but we don't believe this should be limited to policy; we'd like to see a comparison that includes better information about actual investment practices, including investment in clean energy.

Via this contribution to the Points of View section of the Journal of Environmental Investing, we hope to draw attention to the issues raised by our unsuccessful surveys, with the aim of repeating the surveys in 2011. We welcome your thoughts on these early, dismal results and the way forward to making the next set of surveys a success.

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References

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Biographies

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