ESG investing

Aviva Investors walks back 'watch list' pledge to ditch least green investments

Asset manager blames 'different macro backdrop' for change of tack on climate divestments

Aviva Investors, a division of the insurance company Aviva, is one of the UK's largest asset managers © Jose Sarmento Matos/Bloomberg

Attracta Mooney in London

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Aviva Investors has ditched a landmark plan to sell stakes in companies that fail to rein in their carbon emissions sufficiently, joining a trend for investment managers to water down green commitments.

The London-based investment house, which oversees £238bn in assets, announced in 2021 that it had put 30 of the largest utilities, mining and oil and gas companies on a "watch list" as part of a so-called engagement programme.

At the time, it said it was "committed to full divestment" from those that failed to meet its expectations around green action, including a demand for companies to be "1.5C-aligned".

Companies were required to set targets to cut their emissions to levels that would keep global warming below 1.5C above pre-industrial levels. The figure is the lower target in the 2015 United Nations Paris climate agreement.

The divestment pledge was among the asset management industry's most ambitious efforts to hold carbon-intensive companies to account over their greenhouse gas emissions. The company was due to dispose of investments in companies falling short of its requirements within three years.

But, four years later, the investor — a division of the insurance company Aviva — has said it has revamped the engagement programme. It told the Financial Times it was instead focusing on dealing with a "broader set of critical sectors, such as aviation, transportation, building materials and industrials".

The rollback came after repercussions from Russia's war on Ukraine drove up the share price of many carbon-intensive companies. There has also been an intensifying backlash against the use of environmental, social and governance criteria in investing.

Aviva said its convictions regarding climate science and the potential for global warming to have "long-term, material impacts on investment performance" were "unequivocal".

But it added: "Since defining our climate engagement escalation programme in 2021, the market has evolved substantially." A "very different macro backdrop" had emerged, the company said.

"Concerns over energy security and economic recovery have come to the fore, which in turn has had an impact on the regulatory environment and trajectory of national decarbonisation plans," it added.

The company did not reveal whether it had fully divested from any companies that it put on the initial watch list.

But it said that in some instances, where it was not satisfied with the progress that a company was making towards the energy transition, it had made the decision to "reallocate capital".

It had shifted capital towards companies that it believed better supported the green transition and were leading on it.

At the turn of the decade, asset managers were outspoken about the risks of climate change to investment portfolios.

Larry Fink, chief executive of BlackRock, the world's largest investment house, in 2020 said: "Climate risk is investment risk."

But in the past couple of years, many asset managers have pulled out of groups to push companies to take climate action, reduced their support for green resolutions at annual meetings and reduced staffing levels in green functions.

Robert Noyes, co-ordinator of UK Divest, a group that has long pressured asset managers on climate issues, criticised Aviva's change of tack. He called it "sorely disappointing news from a supposed leader in the climate space".

"Aviva is very close to losing its crown by not following through on its promise to drop companies that shun the energy transition," Noyes said.

The company was being cowed by the "political zeitgeist", he added.

Aviva Investors ranked in the top 10 in an assessment of asset managers voting on shareholder resolutions on climate and social issues at annual meetings in 2022. But by this year it has fallen to 30th place, a report from ShareAction has shown.

Noyes said asset managers had "massive potential" to shift the economy away from "expensive, risky and volatile fossil fuels" and towards "cleaner more affordable energy sources".

"Asset owner clients must demand that Aviva follows through on supporting this transition," he said.

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