IFI Global

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The ESG Report

ESG's impact on the fund industry

ESG contradictions

The war in Ukraine and recession fears have exposed the shortcomings of the ESG policy adopted by many pension funds, which is just to divest from companies they don't like. It also shows that the goals of the E, S and G pillars can be contradictory.

The ESG Report investigated the approaches UK pension funds are taking to sustainable investing in June and July. There are some significant differences (there will be more on this in future issues) but there is one thing many of them have in common: divestment. Divestment from companies in polluting industries, arms manufacturing and so forth is by far the most common ESG policy adopted by pension funds.

For example, Railpen has divested from companies that derive more than 30% of their revenue from coal mining and weaponry. USS has done something similar. So has Unilever but in their case the cut off is for companies that derive 50% of their revenue from coal mining or coal power generation. The National Grid has divested from any company involved in thermal coal mining. Even the Mineworkers Pension Scheme has a commitment to net zero which includes some divestment.

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Energy optimism for a change

At last, positive energy news. Renewables look like they might be able to come to the rescue of the West after all. Storage problems have always been their big drawback. Over the last few months there have been some noteworthy developments.

For example, wind and solar power were responsible for nearly 60% of the UK's energy consumption for one weekend in late July, which is a record. Offshore wind capacity is expected to increase from 11 to 50 gigawatts (GW) by 2030 in the UK. RenewableUK says the country has a total of 86 GW in the project pipeline. This puts the UK ahead of China at 78 GW, and the US at 48 GW.

The UK's offshore wind capacity is projected to turn the country into a net energy exporter later this decade.

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