# Study 3. Member Bond Investing Analysis

### Key Findings

- Seven members hold more bonds issued by fossil fuel companies in the BICS Industry Classification list than Vanguard – an average market holdings benchmark with no focus on sustainability and climate change.
- Of note, St. James's Place and Dai-ichi Life's proportion of holdings in fossil fuel companies' bonds were nearly twice as much as that of the cohort's average (2.96 times and 2.69 times, respectively).
- A similar distribution is observed for NZAOA members holding bonds in the Toxic Bonds Dirty 30 list. St. James's Place still topped the table in terms of proportional fossil fuel bond holdings, with 6.26 times more than that of Vanguard. Second place is another Japanese insurance company, Nippon Life Insurance Group. Nippon's proportion of fossil fuel bond holdings is 8.7%, or 5.23 times as much as that of Vanguard Group (1.7%). In comparison with the cohort's average proportion of 1.3%, St. James's Place and Nippon Life Insurance's proportion of fossil fuel bond holdings were, respectively, 8.12 and 6.77 times higher.

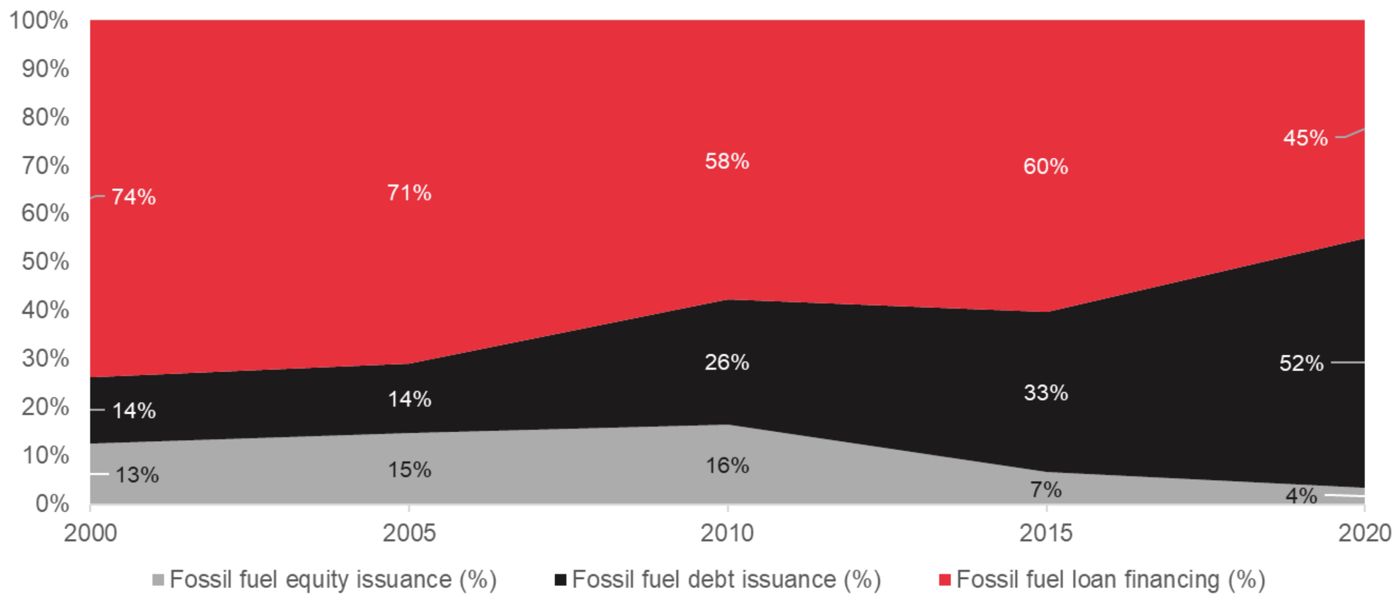
> "St. James's Place and Dai-ichi Life's proportion of holdings in fossil fuel companies' bonds were nearly twice as much as that of the cohort's average."

## Introduction

In this section we calculate the percentage of NZAOA members' bond holdings in fossil fuel companies relative to their entire corporate bond holdings. The study complements the preceding two studies on proxy voting and disclosure, which directly investigated NZAOA signatories' holdings in corporate bonds of companies operating in the fossil fuel industry.

Asset owners have a unique position in responsible investing, due to their considerable assets under management and their role as long-term fiduciaries to a large body of beneficiaries. According to the universal owner theory, asset owners would benefit from a sustainable economy by integrating ESG factors into their investment decisions[xviii]. Moreover, if asset owners, who occupy the top of the institutional investing food chain, take leadership in responsible investing, it may prompt asset managers, financial intermediaries, and the broader economy to follow suit[xix]. Approximately half (or more) of fossil fuel financing comes from bond issuances on the primary market[xx]. As a result, by shedding light on NZAOA members' bond investments in the fossil fuel industry, we could complement findings from Study 1 and 2 to make a stronger case for climate actions from the Alliance.

Figure 2. Fossil fuel fundraising across asset classes. Source: Cojoianu et al. (2022)



## Methodology

We collected data on the bond holdings of all NZAOA members[13] from the Bloomberg Terminal. To identify fossil fuel companies, we relied on lists from: Bloomberg Industry Classification Standard (BICS) Beta, Toxic Bonds, Transition Pathway Initiative, and Urgewald. For the BICS Beta, we searched for fossil fuel companies that are included in at least one of (i) "Integrated Oils," (ii) "Exploration & Production," (iii) "Midstream – Oil & Gas," (iv) "Refining & Marketing," (v) "Drilling & Drilling Support," (vi) "Oilfield Services & Equipment," (vii) "Coal Mining," and (viii) "Gas Utilities." The Toxic Bonds Dirty 30 list includes 30 of the world's worst fossil fuel expansionists, which are chosen primarily from Urgewald's Global Coal Exit List and Global Oil and Gas Exit List. The TPI list of fossil fuel companies covers 120 companies classified in at least one of "coal mining," "oil and gas," or "oil and gas distribution." Finally, for the Urgewald fossil fuel companies list, we put together all companies included in either Urgewald's 2021 Global Coal Exit List or 2021 Global Oil and Gas Exit List.

We then calculated the proportion of each NZAOA member's bond holdings that were issued by companies in the given "Fossil Fuel" classification over their total bond holdings (% of bond holdings in fossil fuel companies). We benchmarked against

- The average proportion of all NZAOA members (excluding those asset owners with no available bond holding data on Bloomberg Terminal); and
- Vanguard Group's proportion of bond holdings in fossil fuel companies.

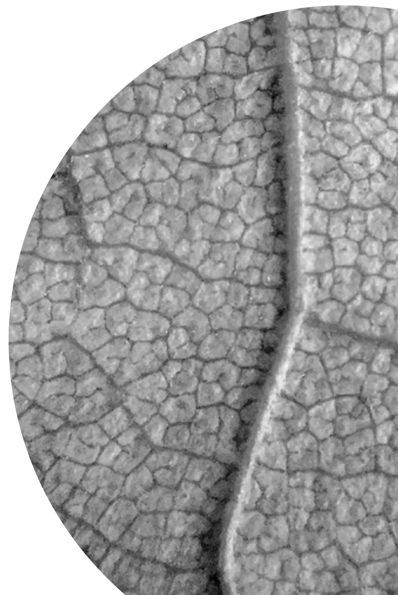
Since Vanguard's holdings are generally regarded as a representation of average market holdings and their focus is not sustainability and climate change, we would expect that NZAOA members' bond holdings in fossil fuel companies would be far lower than that of Vanguard.

This section discusses findings based on the BICS Beta fossil fuel companies list and the Toxic Bonds Dirty 30 list.[14]

13 We also included bond holdings of all members' related organizations (parents, subsidiaries, and sibling organizations), since it is difficult to find public information on asset owners' investments. Please refer to the Appendix 5 for more details.
14 Full results from the other lists (TPI and Urgewald) can be found in Appendix 3.

The columns *'% Investment in BICS Beta FF'* and *'% Investment in Toxic Bonds Dirty 30 FF'* show the percentage of each investor's total holdings that were issued by companies in the given "Fossil Fuel'' classification. This can be read as *'X% of the bond holdings of Investor A were issued by companies in fossil fuel sectors.'* Then, the two columns *'Proportion compared to Vanguard'* means how over- or under-proportionate each investor's "Fossil Fuel" ownership percentage is when benchmarked against Vanguard, and is calculated as *'% Investment in BICS Beta FF'* or *'% Investment in Toxic Bonds Dirty 30 FF '* divided by Vanguard's "Fossil Fuel" ownership percentage. This can be read as 'Investor A is *X% less/as/more exposed to fossil fuel sectors compared to Vanguard.'* The colour coding is a spectrum of colours from green to yellow to red, showing how much less, as, or more an investor is exposed to fossil fuel sectors as compared to Vanguard.

Similarly, the two columns *'Proportion compared to the cohort's average'* means how over- or under-proportionate each investor's "Fossil Fuel" ownership percentage is when benchmarked against the cohort's average, and is calculated as '% Investment in BICS Beta FF' or *'% Investment in Toxic Bonds Dirty 30 FF '* divided by the cohort's average "Fossil Fuel" ownership percentage. The cohort's average percentage includes those members with observable values (i.e. dropping members with no bond holdings data on the Bloomberg Terminal).



## Findings

### Cohort exposure to fossil fuels

Table 6. NZAOA members' bond holdings in BICS Beta fossil fuel companies benchmarked against that of Vanguard and the cohort's average, excluding companies with no bond holdings data on Bloomberg Terminal.

| NZAOA Member | % investment in BICS Beta "Fossil Fuel" | Proportion compared to Vanguard | Proportion compared to the cohort's average |
|---|---|---|---|
| **VANGUARD GROUP** | **6.9%** | **1.00** | **Cohort average = 4.17%** |
| St James's Place | 12.3% | **1.80** | **2.96** |
| Dai-ichi Life | 11.2% | **1.64** | **2.69** |
| Prudential plc | 9.9% | **1.44** | **2.36** |
| Nippon Life Insurance Group | 9.1% | **1.33** | **2.19** |
| Aegon | 8.9% | **1.30** | **2.13** |
| the co-operators | 8.8% | **1.28** | **2.11** |
| Zurich | 6.9% | **1.00** | **1.65** |
| Swiss Re | 6.8% | **1.00** | **1.64** |
| Allianz | 6.8% | **0.99** | **1.63** |
| Aviva | 6.8% | **0.99** | **1.63** |
| Generali Group | 6.1% | **0.89** | **1.47** |
| AXA | 5.7% | **0.84** | **1.38** |
| Legal & General | 5.7% | **0.84** | **1.38** |
| Crédit Agricole Assurances | 5.6% | **0.82** | **1.35** |
| Intesa Sanpaolo Vita Insurance Group | 5.0% | **0.72** | **1.19** |

| NZAOA Member | % investment in BICS Beta "Fossil Fuel" | Proportion compared to Vanguard | Proportion compared to the cohort's average |
|---|---|---|---|
| Phoenix Group | 4.5% | **0.65** | **1.07** |
| M&G plc | 3.4% | **0.50** | **0.82** |
| Meiji Yasuda Life Insurance Company | 3.1% | **0.46** | **0.75** |
| VidaCaixa S.A.U. de Seguros y Reaseguros | 3.0% | **0.44** | **0.72** |
| BNP Paribas Cardif | 1.4% | **0.21** | **0.34** |
| Société Générale Assurances | 1.0% | **0.14** | **0.24** |
| Nordea Life & Pension | 0.9% | **0.14** | **0.23** |
| Storebrand | 0.2% | **0.03** | **0.05** |
| PFA | 0.1% | **0.01** | **0.02** |
| Old Mutual Limited | 0.0% | **0.00** | **0.00** |
| AMF | 0.0% | **0.00** | **0.00** |
| CDPQ | 0.0% | **0.00** | **0.00** |
| Munich RE | 0.0% | **0.00** | **0.00** |
| Pension Insurance Corporation | 0.0% | **0.00** | **0.00** |
| QBE | 0.0% | **0.00** | **0.00** |
| SOMPO Holdings | 0.0% | **0.00** | **0.00** |
| UNIQA | 0.0% | **0.00** | **0.00** |

Table 7. NZAOA members' bond holdings in Toxic Bonds Dirty 30 fossil fuel companies benchmarked against that of Vanguard and the cohort's average, excluding companies with no bond holdings data on Bloomberg Terminal.

| NZAOA Member | % Investment in Toxic Bonds Dirty30 "Fossil Fuel" | Proportion compared to Vanguard | Proportion compared to the cohort's average |
|---|---|---|---|
| **VANGUARD GROUP** | **1.7%** | **1.00** | **Cohort average = 1.29%** |
| St James's Place | 10.5% | **6.26** | **8.12** |
| Nippon Life Insurance Group | 8.7% | **5.23** | **6.77** |
| Legal & General | 2.1% | **1.26** | **1.63** |
| Phoenix Group | 2.0% | **1.18** | **1.53** |
| Allianz | 1.8% | **1.07** | **1.39** |
| Prudential plc | 1.8% | **1.07** | **1.38** |
| Aegon | 1.7% | **1.02** | **1.32** |
| Intesa Sanpaolo Vita Insurance Group | 1.5% | **0.92** | **1.19** |
| Generali Group | 1.5% | **0.87** | **1.13** |
| Crédit Agricole Assurances | 1.5% | **0.87** | **1.13** |
| Dai-ichi Life | 1.4% | **0.87** | **1.12** |
| Old Mutual Limited | 1.4% | **0.83** | **1.08** |
| M&G plc | 1.3% | **0.79** | **1.02** |
| Aviva | 1.3% | **0.76** | **0.99** |
| AXA | 0.9% | **0.53** | **0.69** |
| Zurich | 0.7% | **0.39** | **0.51** |
| Swiss Re | 0.5% | **0.31** | **0.41** |

| NZAOA Member | % Investment in Toxic Bonds Dirty30 "Fossil Fuel" | Proportion compared to Vanguard | Proportion compared to the cohort's average |
|---|---|---|---|
| BNP Paribas Cardif | 0.2% | **0.15** | **0.19** |
| VidaCaixa S.A.U de Seguros y Reaseguros | 0.2% | **0.12** | **0.16** |
| QBE | 0.1% | **0.07** | **0.09** |
| Nordea Life & Pension | 0.1% | **0.06** | **0.08** |
| PFA | 0.1% | **0.04** | **0.05** |
| AMF | 0.0% | **0.00** | **0.00** |
| CDPQ | 0.0% | **0.00** | **0.00** |
| Meiji Yasuda Life Insurance Company | 0.0% | **0.00** | **0.00** |
| Munich RE | 0.0% | **0.00** | **0.00** |
| Pension Insurance Corporation | 0.0% | **0.00** | **0.00** |
| Société Générale Assurances | 0.0% | **0.00** | **0.00** |
| SOMPO Holdings | 0.0% | **0.00** | **0.00** |
| Storebrand | 0.0% | **0.00** | **0.00** |
| the co-operators | 0.0% | **0.00** | **0.00** |
| UNIQA | 0.0% | **0.00** | **0.00** |

## Benchmarking and member deep dives

Several NZAOA members had no exposure to fossil fuel companies (25% of members based on the BICS Beta fossil fuel list and 31% based on the Toxic Bonds Dirty 30 list, respectively). The no-exposure members are Old Mutual Limited, AMF, CDPQ, Pension Insurance Corporation, QBE, SOMPO Holdings, and UNIQA.

On the other hand, according to the BICS Beta fossil fuel companies list, seven members were overexposed to fossil fuel debts. They are St. James's Place, Dai-ichi Life, Prudential plc, Nippon Life Insurance Group, Aegon, the co-operators, and Zurich. Of note, St. James's Place and Dai-ichi Life's proportion of holdings in fossil fuel companies' bonds were nearly twice that of Vanguard Group (1.80 times and 1.64 times). Compared with the cohort's average exposure of 4.17%, these two members performed even worse, with more than twice the proportional bond holdings in fossil fuel companies as the full cohort (2.96 times and 2.69 times, respectively). Apart from these two members, 14 members (Prudential plc, Nippon Life Insurance Group, Aegon, the co-operators, AXA, Zurich, Swiss Re, Allianz, Aviva, Generali, Legal & General, Crédit Agricole Assurances, Intesa Sanpaolo Vita Insurance Group, and the Phoenix Group) had more exposure to fossil fuel bonds than the cohort's average.

The same findings can be said for the Toxic Bonds Dirty 30 list. Seven members had a higher proportion of fossil fuel bond holdings than Vanguard (St James's Place, Nippon Life Insurance Group, Legal & General, Phoenix Group, Allianz, Prudential plc, and Aegon). St. James's Place still topped the table in terms of proportional fossil fuel bond holdings, with 6.26 times more than that of Vanguard. Second place was Nippon Life Insurance Group. Nippon's proportion of fossil fuel bond holdings is 8.7%, which is 5.23 times as much as that of Vanguard Group (1.7%). In comparison with the cohort's average proportion of 1.3%, St. James's Place and Nippon Life's proportion of fossil fuel bond holdings were, respectively, 8.12 and 6.77 times higher.

Our findings in this final bondholder analysis complement the first two studies on public disclosures and proxy voting to create an aggregate view of how NZAOA members stack up to the Alliance's net-zero ambitions. These findings are discussed in summary below, along with key recommendations.

**Key Recommendations**

- When reporting on portfolio and sub-portfolio emissions targets, fully disclose aggregate corporate bond holdings and Scope 1, 2, and 3 emissions associated with these holdings by industry sector code.
- Deny the bonds of any fossil fuel companies expanding output or infrastructure.
- Reduce current exposure to fossil fuel bond holdings, unless the company stops expansion and implements a complete phase-out strategy aligned with principles of equity and a 1.5˚C timeline that is certified by globally recognized, science-based professionals.
- Apply innovative net-zero benchmarks, such as the EU's Paris-aligned investment benchmarks, which reduce portfolio's year-over-year exposure to fossil fuels.