



AMERICAN  
SUSTAINABLE  
BUSINESS  
COUNCIL

## Municipal Primer on Climate Investing

SEPTEMBER 8, 2015



American Sustainable Business Council is a growing coalition of business organizations and businesses committed to creating a vision and framework and advancing market solutions and policies to support a sustainable economy. Founded in 2009, ASBC and its organizational members represent more than 250,000 businesses and more than 325,000 and business leaders across the United States.

[www.asbcouncil.org](http://www.asbcouncil.org)

## INTRODUCTION:

*September 8, 2015*

*In August, the United States Environmental Protection Agency (EPA) released its Clean Power Plan final rule, which will establish the first-ever limits on carbon pollution from existing power plants. Despite being a national rule, the plan leaves the decision on how to meet those limits to the states, who will be asked to develop State Implementation Plans to reduce air pollution under the rule.*

*The Clean Power Plan is a bold move, and also the smart one. It addresses climate change and will drive innovation and job creation throughout the economy. Moving towards a clean energy future will mitigate the worst effects of climate change, which inflicts damaging costs on businesses, supply chains and communities. At the same time, this will ensure we are taking full advantage of the market forces that are making clean energy more attractive every day.*

*As President Obama stated, “We are the first generation to feel the impact of climate change and the last generation that can do something about it.”*

*That fact, along with so many other economic, social, moral and environmental factors, is why we need to take action through all channels. Our business community is stepping up to make the necessary changes within our companies and to support action by the White House and Congress, as well as at the state and local level.*

*[National scientific polling commissioned by ASBC](#) shows that one in five small business owners say they have already been affected by climate change. They understand the risks of inaction as well as anyone else.*

*This resource guide provides a set of investment strategies and resources to support the smart transition to a clean energy future.*

*We look forward to working with you to advance a smart path forward to build a more sustainable economy.*

*Sincerely,*

*David Levine*

*David Levine, CEO, American Sustainable Business Council*

## MUNICIPAL PRIMER ON CLIMATE INVESTING

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Climate change threatens to devastate the vast majority of American coastal cities, primarily due to sea level rise and storm surge during violent storms. Cities convened under a variety of compacts – e.g., C40 Cities Climate Leadership Group, of which New York City was a founding member – are developing innovative approaches to climate change mitigation, adaptation and resilience.

We now have the opportunity to take its leadership on climate change to the next level. The economic value at risk from climate change will continue to increase as long as we continue to increase greenhouse gas concentrations. Climate scientist and visionary James Hansen [just published a paper](#) predicting 10 feet of average global sea level rise before the century's end. Hansen's paper is a departure from much more modest predictions by the Intergovernmental Panel on Climate Change (IPCC), which most recently pegged global average sea level rise of about 3 feet by 2100. Even if Hansen's predictions prove too aggressive, the safe predictions of consensus-based IPCC are bad enough: three feet of sea level rise by 2100.

There are many opportunities to promote ambitious action and policies to help to avoid a climate crisis. From work on energy efficiency and on-site renewable energy generation for buildings, exploring climate solutions that are cost-effective and ambitious enough to meet the challenges ahead.

The use of pension funds and investments can now do even more to advance clean energy investment and fossil fuel divestment. More options are becoming available that are making waves around the world and across multiple sectors, including cities and pension funds, higher education, foundations, faith-based organizations, health care consortia, and individuals.

This report lays out options for city and pension fund managers to use their power as investors to accelerate the clean energy transition. Broadly, we will discuss four main approaches:

- *Risk Assessment:* Identify the extent to which climate and carbon risk are embedded portfolios.
- *Portfolio construction & Divestment:* Address climate and carbon risk in portfolio construction including Divestment, which can significantly reduce the carbon intensity of investment portfolios without significantly changing tracking error or imperiling returns.

- *Invest in the Future: Diversify* investments into opportunities positioned to succeed in a low carbon economy.
- *Shareholder Engagement: Engage* corporate boards and executives on plans to mitigate and disclose carbon risks.

The report concludes with a list of resources that fund managers may find helpful, both for educational purposes and for the purpose of designing a climate investment strategy tailored to their needs.

"Let's talk about this as an opportunity of a lifetime, because there are too many lifetimes at stake."

EPA Administrator Gina McCarthy  
Harvard Law School speech, July 30, 2013 on the need to address climate impacts

## 1. RISK ASSESSMENT

The first step is to identify and understand where all the climate risks (physical risk) and carbon risks (regulatory and litigational, as well as reputational, primarily for large emitters) are in the portfolio. Then assess which industries/sectors are most vulnerable to each type of risk to get an idea of value at risk. Then talk to consultants, asset managers, etc, about how to address the principal forms of value at risk.

[A recent report noted](#) that California Lost \$5 Billion In Public Pension Funds Billion Due To Fossil Fuel Investments Last Year

Resources to use: UNEP FI's website on portfolio decarbonization at <http://unepfi.org/pdc/>, Also, MSCI's website on low carbon indexes has some good stuff on several options, including divestment. <https://www.msci.com/msci-low-carbon-indexes>

### Stranded Assets

UK-based Carbon Tracker Initiative broke new ground in 2011, when it introduced the concept of stranded assets as a material financial risk to investors. Mapping the world's coal, oil and gas reserves against the global carbon budget we cannot surpass and stay on a 2 degrees Celsius track, Carbon Tracker's analysis exposed the risks that fossil fuel asset values are inflated. They concluded that roughly 80% of the known reserves must remain in the ground if we are to preserve a hospitable – and even habitable – planet. These massive reserves of coal, oil and gas were effectively what the finance lexicon calls “stranded assets”<sup>1</sup>: Their full economic potential could not be realized. Either they

<sup>1</sup> “Unburnable Carbon – Are the world's financial markets carrying a carbon bubble?” 2011,

would be stranded – or we would. It followed that institutional investors had hidden climate risks in their portfolios.

In the report titled [Stranded assets: what next?](#), HSBC analysts warn of the growing likelihood that fossil fuel companies may become "economically non-viable." This will happen as the economy transitions away from carbon energy and existing fossil fuel reserves are left in the ground. See also this [related article](#).

### Climate Risk is Material

Mercer's [2011 study on climate risk assessment](#) set forth important guidance for investors, warning that fossil fuel investments are risky business. The study highlighted the risks posed by ever more ambitious climate policies, as national and subnational governments grapple with climate impacts, as well as resource scarcity and volatility. By estimating the impact of climate change on investor returns, Mercer demonstrated why climate risk must be a standard consideration for investors seeking to minimize risk and maximize performance. [Mercer's 2015 update](#) puts the choice succinctly:

We have understood for a number of years that climate change presents a series of risks to institutional investors, who manage trillions of dollars in capital globally for pension fund members and individual savers, endowments, foundations, and insurers. For the fiduciaries overseeing investments, climate change poses portfolio risks but also opens up new opportunities. This is because the necessary reduction in carbon emissions will require a fundamental change in the energy mix that underpins, to some extent, every investment in a portfolio. More than two centuries of economic development has been supported by access to cheap fossil fuels. The transition to a lower-carbon economy has begun, but we expect the speed of the process to increase. Evidence of the potential impacts that emissions-related temperature increases will have on resource availability, physical asset damage, human health and the impact on our economy are driving the need for policy action.

In addition, Carbon Tracker has produced the [Fossil Fuel Transition Blueprint](#), which discusses strategies for fossil fuel producers to manage carbon asset risk – and how investors can nudge them in that direction. The blueprint exposes the following key risks associated with climate change.

- **Commodity Price risk:** What is the risk to the value of existing company reserves in a 'low carbon' scenario for demand where commodity prices are likely to be lower but certainly more volatile?

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Carbon Tracker Initiative <http://www.carbontracker.org/wp-content/uploads/2014/09/Unburnable-Carbon-Full-rev2-1.pdf>.

- Demand/Volume risk: What is the relative exposure to future high cost, high carbon developments that may prove unnecessary and hence sub-commercial in a 'lower carbon' scenario?
- Capital allocation risk: Is there sufficient flexibility within existing capital budgets to avoid pressure on shareholder dividends and employee levels in a 'lower carbon', low price scenario.
- Management risk: Are management and shareholder interests aligned correctly for a 'low carbon' scenario, which would likely require a low/no growth investment strategy?

Carbon Tracker has also published materials to help investors reduce exposure, tackling the problem sector by sector – for [oil](#), [coal](#), and [gas](#).

In addition, Generation Foundation has outlined basic principles to help investors mitigate carbon risks and capitalize on the transition to a low carbon economy. Find that framework [here](#).

### Index Strategies to Reduce Carbon Risk

There are a number of index options offered by some of the most prominent players in the Index markets with being created and increasing in international markets as well. Existing low-carbon and fossil free indices weight fossil fuel producers according to potential carbon dioxide emissions relative to market capitalization (e.g. tons of CO<sub>2</sub> in a company's reserves relative to million dollars of market capitalization). Such metrics, however, convey no information about the relative *cost* of the reserves in question: For example, Saudi Arabian oil is much less expensive to produce than oil from Canadian tar sands.

These Indexes exclude companies linked to exploration, ownership or extraction of carbon-based fossil fuel reserves. These new investment tools will allow climate-conscious investors, including foundations, universities and certain pension groups, to match their investment strategy and financial interests with their values.

### Indexes

Some of the largest Index data providers in the world, offer fossil free and low carbon indices.

Below are some examples

**FTSE** - <http://www.ftse.com/products/indices/ex-fossil-fuels>

**MSCI** - <https://www.msci.com/documents/10199/c33c655d-bc34-4445-99f6-2bc99a2a9e11>

In addition, **Fossil Free Indexes LLC** produces data for an S&P 500 without fossil fuel reserves owning companies. <http://fossilfreeindexes.com>

Fossil free indices have outperformed their parent benchmarks over the last 1, 3 and 5 years.

The failure to account for such cost disparities is a shortcoming, as the transition to a low carbon economy will disproportionately affect higher-cost fossil fuel reserves. As regulation and advances in clean energy diminish future demand for fossil fuels, higher-cost reserves will disproportionately incur financial losses. Carbon Tracker suggests a better way of accounting for financial risk to fossil fuel producers is to weight such companies according to where they are on the “carbon supply cost curve.”

## *2. Portfolio Construction & Divestment*

“Fossil fuel stocks are volatile investments,” said Matthew Patsky, CEO of Trillium Asset Management. “Investors and fiduciaries should take this moment to reassess their financial involvement in carbon pollution, climate disruption and the financial risk fossil fuels plays in their portfolio. Many Sustainable and Responsible Investors choose to eliminate all traditional energy from their portfolios, and have found that this approach has minimal impact on performance over the long-term.”

It is possible to construct well-diversified portfolios eliminating companies whose business model is dominated by fossil fuels that, over the long term, should not sacrifice performance, with acceptable tracking error.

[https://s3.amazonaws.com/s3.350.org/images/Climate\\_Proofing\\_Your\\_Investments\\_final.pdf](https://s3.amazonaws.com/s3.350.org/images/Climate_Proofing_Your_Investments_final.pdf):

The ESG investing world has a host of strategies to meet those criteria and many are increasing focusing on carbon risk. One of the primary focuses to address carbon risk is divestment. In this report, we are providing information on some of the strategies but there is a growing diversity of options. The key take away should be that there is increasing agreement that carbon risk is the important criteria to pay attention above and beyond traditional ESG criteria.

Divestment

Divest-Invest is rooted in incontrovertible climate science that requires humanity to leave 80% of the world's proven fossil fuel reserves in the ground if we are to retain a habitable planet. The financial implications, also incontrovertible, though exact timing TBD, is that global investors are sitting on a massive carbon bubble that will burst when climate costs are finally internalized – whether through national and subnational carbon pricing regimes, a global climate compact, or otherwise. Smart investors – now controlling more than one trillion dollars in assets – are getting ahead of the bubble by dumping fossil fuels and investing instead in climate solutions.

The Norwegian sovereign wealth fund (the biggest in the world) is shedding coal stocks. World-class universities like Stanford have divested from coal. Other institutions are dumping all fossil fuels – coal, oil, gas, and unconventional fuels like tar sands – from their portfolios. Perhaps the most iconic of these is the Rockefeller Brothers Fund (RBF) in the United States. Despite sharing in the enormous wealth generated by John D. Rockefeller in founding the global oil industry, RBF is jettisoning its holdings in the top 200 fossil fuel companies because it sees the writing on the wall: “We are quite convinced that if [John D.] were alive today, as an astute businessman looking to the future, he would be moving out of fossil fuels and investing in clean, renewable energy,” says RBF President Stephen Heintz.

Cities are playing a critical role in the divestment movement, with dozens of commitments of different sorts already on the table. Seattle was the first American city to commit to divest in December 2012. Since then many new ones have followed suit, including (listed in order of divestment):

San Francisco, CA  
Portland, OR  
Eugene, OR  
Berkeley, CA  
Richmond, CA  
Santa Monica, CA  
Boulder, CO  
Santa Fe, NM  
Madison, WI  
Bayfield, WI  
State College, PA  
Ithaca, NY  
Truro, MA  
Provincetown, MA  
Providence, RI  
Cambridge, MA  
Northampton, MA  
Ann Arbor, MI



Boxtel, the Netherlands  
New London, CT  
Amherst, MA  
Sudbury, MA  
Concord, MA  
Framingham, MA  
Dunedin, New Zealand  
Oakland, California  
Örebro, Sweden  
Oxford, United Kingdom  
Eugene, OR  
City of Brisbane, CA  
City of Moreland, Melbourne, Australia  
City of Fremantle, Western Australia, Australia  
Ashland, OR  
Marrickville, Sydney, Australia  
Belfast, Maine  
Shire of Goomalling, Western Australia  
Palo Alto, CA  
Leichhardt, Sydney, Australia  
Great Barrington, MA  
Lismore, NSW, Australia  
Minneapolis, MN  
Corvallis, OR  
San Luis Obispo, CA

A regularly updated list of divesting institutions can be found [gofossilfree.org](http://gofossilfree.org).

A commonly held, but mistaken, belief is that divesting cities must sacrifice financial returns – potentially impacting large and politically-sensitive pension funds. Fossil-free portfolios have outperformed the market for several years. For instance, MSCI (NYSE: MSCI) recently calculated that portfolios without coal, oil and gas earned 1.2% more than conventional portfolios since 2010: Fossil-free investors enjoyed returns of, on average, 13% a year, versus 11.8% for conventional investors. Indeed, *staying* invested in fossil fuels is the real threat to your portfolio: A [recent report](#) by global consultancy Mercer states, “climate change ... will inevitably have an impact on investment returns.” And the market is responding. New fossil free and low carbon investment products are appearing rapidly, bolstered by research that shows that fossil free portfolios are yielding positive, competitive and even superior returns.

Third, clean energy alternatives – largely from the sun and wind – have been sailing down their cost curves, finally achieving price parity with fossil fuels in many regions and applications. Fourth, national and sub-national governments are ramping up regulation and financial incentives to accelerate the clean energy transition, and world governments are negotiating a global climate accord this December at the COP21 Paris climate talks this. [Carbon Tax campaigns are gaining momentum led by organizations like The American Sustainable Business Council, Carbon Tax Center](#) and others.

The bottom line is that investors, including cities, do not have to choose between investing with their values and financial performance. Not only is this true now, but it will grow more apparent over time.

### Phased Divestment

The analysis here should give comfort to municipalities considering divestment but concerned about portfolio performance. Moreover, the ask to institutions is circumscribed and gradual: Divest any holdings in the top 200 fossil fuel producers (the Carbon Underground 200, available [here](#)) over the course of five years. Nevertheless, some institutional investors may not be ready to go “all in.” For these, it is worth considering the phased divestment approach of institutions like Stanford and the Norwegian sovereign wealth fund, both of which decided to divest from coal first before moving on to oil and gas. Others, like Georgetown University, are divesting from coal and tar sands. A phased approach is a viable alternative for any investor seeking to protect returns, while simultaneously lending a helping hand to this movement.

### Case Study: Providence, Rhode Island

Many local governments have committed to fossil fuel divestment, selling holdings in their general funds and working with their local pension boards (or their state systems if they participate) to work to move them as well. Cities including Seattle, Portland, San Francisco, Minneapolis, Oslo, and over 40 others have committed to divestment.

On July 23, 2015, Providence became the largest city to fully divest all its funds from the filthy fifteen (the top coal companies). Mayor Jorge Elorza announced that the city’s investment board had unanimously voted to divest the city’s \$282 million portfolio.

This represented the culmination of a long effort led by Councilman Seth Yurdin, sponsor of a divestment resolution in 2013 that set Providence on this path. Yurdin began working on the resolution as a response to the risks Rhode Island faces from climate change, including significant damage from rising sea levels and more intense storms. The resolution called on the city’s investment board to stop making new investments in fossil fuels, and to divest from existing holdings over five years.

Politicians and local environmentalists worked together for years following the initial divestment resolution to determine that divesting the pension board was prudent. A

subsequent council resolution requesting an analysis of the pension’s holdings generated a balanced response from an investment council, concluding that investment managers were used to dealing with restricted lists.

Providence’s decision came among heated local campus campaigns, including a decision by the Rhode Island School of Design to divest, and an ongoing campaign at Brown University.

“The City of Providence has sent a clear signal about these companies and the fossil fuel industry as a whole: they are wrong to pollute our atmosphere with their carbon and our politics with their dark money, and we will not be a part of it. Good for Providence to join Pope Francis in raising the issue of climate change and standing up for public health,” said Senator Sheldon Whitehouse.

### 3. INVEST IN THE FUTURE

Successfully addressing the climate crisis in timetables prescribed by physics will require an overhaul of the global economy. We must rapidly scale renewable energy and storage technologies to transition the power sector from fossil fuels. We also transform our transportation system, agriculture, the built environment and industrial processes. In this wholesale transformation lies immense opportunity for institutional investors seeking stable, long-term returns.

By helping shift capital flows away from the problem and accelerate the transition to a future fueled by sun, wind and water, institutional investors have a genuine opportunity to *capitalize* and *capitalize upon* the energy transition. There are societal co-benefits too: Every dollar into clean energy creates three times as many jobs as putting that same dollar into oil and gas. Overall, the clean energy sector is growing at nearly double the rate of the overall economy.

Sound investment strategies and products exist across every asset class of a traditional institutional portfolio. Representative examples for each are described below.

#### A. Equities

A whole host of publicly-traded companies, across multiple economic sectors, are paving the way to a sustainable future. Equity investment opportunities also abound across agriculture, water, energy efficiency and the built environment.

Inquire with firms and NGOs that specialize in assessing companies on environmental, social responsibility and corporate governance (ESG) issues, such as As You Sow, Bloomberg, the Center for Political Accountability and Trucost. Various fossil free and low-carbon equity indices have also been developed, such as Fossil Free Indexes, DJSI

Series, FTSE4GOOD Index Series, MSCI ESG Index Series, and S&P US Carbon Efficient Index.

Firms like Green Century Capital and Trillium offer full equity strategies too. For example, *Trillium's Fossil Fuel Free Core Strategy* invests across a range of market capitalizations and economic sectors that meet Trillium's sustainability criteria. The strategy has no direct exposure to fossil fuels. See this [Commentary](#) for further detail.

[US SIF also provides a good discussion of options and asset classes here](#)

## B. Bonds

After the global financial crash, people looked to the bond market as a source of debt to finance the green infrastructure the economy needs. Bonds attract large-scale investors, offering low risk and steady returns. The United States is home to the largest bond market in the world.

According to a new report by international NGO [The Climate Bonds Initiative](#), the global climate bond market is booming. The [report](#) finds that the total climate-aligned bonds universe now stands at \$598 billion – a 20% increase since last year. Bonds related to low-carbon transport account for 70% of the total, followed by clean energy, at 20%. The remaining 10% of bonds fall into the Buildings and Industry, Agriculture and Forestry, Waste and Pollution or Water themes or are Multi-Sector bonds.

Bonds in renewable energy projects subject to multi-year power purchase agreements (PPAs) are especially stable investments, offering competitive returns. In the U.S., for example, bond issues in the last two years included \$1 billion by MidAmerican Solar, a subsidiary of Warren Buffett's Berkshire Hathaway's, to build and operate the Solar Star projects in California.

U.S. institutional investors can also support Green America's initiative supported by the American Sustainable Business Council on [Clean Energy Victory Bonds](#). This proposed U.S. Treasury bond would support solar, wind, geothermal, efficiency, electric vehicles, and other important energy measures that create good jobs.

## C. Mutual Funds

### ***Broad-Based, Fossil Free Mutual Funds***

Examples include:

[Green Century Balanced Fund](#)

This fund excludes fossil-fuel companies, and in 2009 became the first fund to release a carbon-footprint report of its holdings: 66 percent smaller than the S&P 500.

#### [Green Century Equity Fund](#)

As of April 1, 2014, the Equity Fund is fossil free. The fund already excluded coal and oil companies, but now excludes natural gas as well.

#### [Parnassus Endeavor Fund](#)

Effective May 1, 2014, the fund no longer invests in companies engaged in the extraction, exploration, production, manufacturing or refining of fossil fuels. (It was formerly known as the Parnassus Workplace Fund.)

#### [Pax World Growth Fund](#)

As of May 1, 2014 the fund divested its fossil fuel holdings and now pursues a fossil free investment strategy. Fossil fuel company investments have been replaced by investments addressing global sustainability challenges.

#### [Pax World Global Environmental Markets Fund](#)

While excluding fossil fuels, this fund also invests in clean energy and energy efficiency, pollution control, waste management, and water infrastructure.

#### [Portfolio 21](#)

Portfolio 21 pursues a company-wide strategy of screening out investments in fossil fuel companies. A searchable list of its holdings appears on its Web site.

#### [Shelton Green Alpha Fund](#)

This fund believes that fossil fuels disrupt the economy and its underlying ecosystems, do not represent solutions, and have no place in Green Alpha portfolios.

### ***Fossil Free Community Development Mutual Funds***

Community investment to support climate objectives include transit-oriented development, green building, clean technology business development, sustainable agriculture and local food systems. Examples of fossil free mutual funds with an added filter for community reinvestment include:

#### RBC Global Asset Management's [Access Capital Community Investment Fund](#)

This fund is entirely fossil free and supports a variety of community reinvestment initiatives.

#### [CRA Qualified Investment Fund](#)

The CRA Fund focuses on community development, including affordable housing, job creation, and neighborhood revitalization.

### ***Fossil Free Exchange Traded Funds***

[First Trust ISE Global Wind Energy Index Fund](#)

[Guggenheim Solar ETF](#)

[PowerShares Global Clean Energy ETF](#)

[PowerShares Global Clean Energy ETF](#)

[Van Eck Global Alternative Energy ETF](#)

[Van Eck Solar Power ETF](#)

### **D. Alternative Investments**

Alternative investments include hedge funds, private equity, absolute return strategies, and venture capital. An ever-growing number of alternative investment vehicles consider climate change and related criteria. For instance, a 2012 [US SIF trends survey](#) identified:

- 64 private equity and venture capital funds, with assets of \$31 billion, that focused on sustainable natural resources and agriculture
- 58 property funds (\$63 billion) that financed green building & smart growth
- 24 property funds (\$38 billion) with climate change or carbon criteria
- 18 hedge funds (\$2.61 billion) with climate change or carbon criteria

Resources & networks for accredited investors include:

- SJF Ventures and Investors' Circle
- Bloomberg New Energy Finance
- ImpactBase
- Generation Investment Management

### **E. Cash & Cash Equivalents**

Banks and other financial institutions contribute to climate change through “financed emissions”—i.e., GHG footprints of their loans, investments, and services. City pension funds and municipal portfolios can open accounts in, or purchase CDs and other cash-like instruments from, banks and credit unions with a track record in sustainable investing and community development. Bloomberg New Energy Finance and Bloomberg's ESG Data Group publish an annual list of the world's greenest banks with market capitalizations over \$10 billion.

### ***Fossil Free Certificates of Deposit***

[New Resource Bank Impact CD](#)

This CD includes investment in solar and alternative energy sources.

### [Self Help Credit Union CD](#)

This CD includes investment in renewable energy projects and businesses as well as energy efficient affordable homes.

### F. Green Revolving Loans

The Sustainable Endowments Institute has created the [Green Revolving Investment Tracking System](#) (GRITS) to encourage new financing strategies that promote investment in sustainability projects like energy efficiency upgrades and retrofits.

GRITS 1.0 is an online tool that institutional investors, such as universities and pension funds, can use to better manage financial and environmental performance and achieve sustainability goals. The tool offers a bridge between management and performance reporting by creating a space to track, analyze, and share data on specific projects or groups of projects—well beyond the capabilities of spreadsheets.

With GRITS, institutional investors can: Access and learn from the field-tested work of peer institutions; facilitate investments in efficiency projects by enabling fund administrators to easily and clearly communicate with stakeholders; simplify calculations of project-specific carbon and financial savings on both annualized and estimated life-of-project timeframes; and create customized reports that tell the story of current and anticipated financial and environmental performance.

For more information, please visit <http://greenbillion.org/grits2014>. Please email [GRITS@GreenBillion.org](mailto:GRITS@GreenBillion.org) with questions, comments, and to see first-hand the improved GRITS tool. Sustainable Endowments Institute is also offering interested parties a free, 2-week trial. Sustainable Endowments Institute is a special project of Rockefeller Philanthropy Advisors 18 Tremont Street, Suite 930, Boston, MA 02108 Office: (617) 528-0071 POC: Emily Flynn - [emily@endowmentinstitute.org](mailto:emily@endowmentinstitute.org)

## 4. SHAREHOLDER ENGAGEMENT

Divestment from fossil fuels and investment in climate solutions – broadly defined to include clean energy, sustainable cities, agriculture and water investments, mass transit, smart buildings and more – sends a powerful message that business as usual is not an option. This approach offers maximum impact, but there are other strategies that city and pension fund managers can pursue also.

Shareholder engagement is the most popular alternative. Shareholder activism is a potent tool when seeking to shift a business model at the margins: For instance, pressuring an apparel manufacturer to improve workplace safety or provide a living wage to employees. Yet it is much less effective when the aim is to shift the core business of the

industry in question. In particular, shareholder engagement has not been successful in shifting the core business of the fossil fuel industry away from extraction, burning and exploration for new reserves (i.e., above and beyond the 80% of proven reserves the science says we cannot burn). One need only look at the steady and continued rise of global carbon emissions for evidence on this point, the relentless capital expenditures by the Carbon Majors to seek new reserves, or their lack of serious investment in renewable energy projects.

That said, investors seeking to engage might explore two tactics that could make a difference. First, ask the companies to immediately cease exploration for new reserves: The science requires us to leave 80% of proven reserves in the ground, so it defies logic to seek new reserves beyond that unburnable amount. (The money saved – the Carbon Majors invest close to \$1 trillion annually in CapEx for new reserves, could be invested on renewable energy projects, or returned to shareholders.) Second, demand that companies disclose their lobbying expenditures.

Note that divestment and engagement are not mutually exclusive. A city pension fund manager could decide, for example, to divest the bulk of fossil fuel stocks but retain a *de minimus* amount in order to exercise shareholder prerogatives, like proxy voting.

### Proxy votes

The use of the proxy voting to force fossil fuel companies to disclose lobbying expenditures, particularly those used to sow doubt on settled climate science, is another tool investors can employ.

**Resource: Timothy Smith**, Director of ESG, Shareowner Engagement, Walden Asset Management [Tsmith@bostontrust.com](mailto:Tsmith@bostontrust.com)

## ADDITIONAL RESOURCES

### Investor Guidance

*Green America's Guide to Fossil Fuel Divestment*

A how to for investors on both the divestment and investment side can be found [here](#).

### Investor Dialogues

There are PRI multi-investor dialogues on climate lobbying through the United Nations Environment Program Finance Initiative, Principles for Responsible Investment (UNPRI). If you are not a member, it's straightforward to join: contact [paul.chandler@unpri.org](mailto:paul.chandler@unpri.org)



The Investor Network in Climate Risk (INCR), a network organized by Ceres, also provides monthly updates and conference calls and focused work on Carbon Asset Risk.

## **Contributors to the dialogues & Municipal Primer on Climate Investing**

### ***Special thanks to the primary contributors to this report:***

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**American Sustainable Business Council (ASBC)** is a growing coalition of business organizations and businesses committed to creating a vision and framework and advancing market solutions and policies to support a vibrant, just and sustainable economy. Founded in 2009, ASBC and its organizational members represent more than 250,000 businesses and more than 325,000 and business leaders across the United States. These diverse business organizations are comprised of trade associations, local and state chambers of commerce, microenterprise, social enterprise, worker owned cooperatives, green and sustainable business groups, local and community-rooted business, women business leaders, economic development organizations and investor and business incubators. ASBC informs and engages business leaders, while educating policy makers and the media about the need and opportunities for a sustainable economy. On issues ranging from sustainable agriculture, climate change clean water, safer chemicals, fair elections, Citizens United, fair tax system among others, ASBC is raising up the voice, presence and power of business to create jobs, grow business and build a sustainable US economy.

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### **Divest-Invest Philanthropy**

Divest-Invest Philanthropy is a platform for institutions that follows the lead of student and community-driven fossil fuel divestment and new energy economy reinvestment. Their voices have inspired people, campuses, municipalities, pension funds, foundations, faith-based and health-based groups, investment advisors, businesses and others to think critically about the value of fossil fuel divestment and what reinvestment in climate solutions looks like. Together, we are holding fossil fuel industries accountable for their obstruction of climate policy solutions, investing for public good and financial performance, and accelerating the growth of a sustainable and equitable economy.

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### **Carbon Tracker**

Carbon Tracker is a team of financial, energy and legal experts with a ground-breaking approach to limiting future greenhouse gas emissions.

We have the technical knowledge, connections and reach to get inside the mind-set of the global financial community and effect change on a global scale. We are a non-profit, independent organisation, free from the commercial constraints of mainstream analysts and able to set our own research agenda.

*Reid Capalino*, Senior Energy Analyst, Carbon Tracker

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**Domini Social Investments LLC** is a woman-owned and managed SEC-registered investment adviser that specializes exclusively in socially responsible investing. We serve individual and institutional investors who wish to create positive social and environmental outcomes while seeking competitive financial returns. Domini manages three mutual funds with a combined \$1.6 billion in assets: the [Domini Social Equity Fund](#) (large-cap domestic equity), the [Domini International Social Equity Fund](#) (large to mid-cap international equity), and the [Domini Social Bond Fund](#) (U.S. intermediate term fixed income). We believe that all investments have social and environmental implications. We apply social, environmental and governance standards to all of our investments, believing they help identify opportunities to provide strong financial rewards to our fund shareholders while also helping to create a more just and sustainable economic system. We also have a long-term commitment to corporate engagement, and have submitted more than 250 shareholder proposals on a broad range of social and environmental issues over the past twenty years.

*Adam Kanzer*, Managing Director Domini Social Investments LLC

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### **Green America**

Green America is a not-for-profit membership organization founded in 1982 and based in Washington, DC. Our mission is to harness economic power—the strength of consumers, investors, businesses, and the marketplace—to create a socially just and environmentally sustainable society. Green America has 175,000 individual members and e-activists and a national Green Business Network of 3,500 small to mid-size companies that take social and environmental impacts into account in their business operations. Green America’s work focuses primarily on Clean Energy, Safe Food, Responsible Finance, Fair Labor, and Green Living.

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### **GreenStreet Inc & GreenStreet Network**

GreenStreet exists to achieve high performance building and development projects that optimize health and comfort while minimizing impact on the local and global environment. As an outgrowth of its ongoing evolution, and strong commitment to the Sustainability Movement, GreenStreet seeks to educate on the value of High Performance Building and advocate for its common adoption worldwide.

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### **Heartland Capital Strategies**

Inspired by the United Nations, Principles for Responsible Heartland was formed in 1995 by the Steelworkers, AFL-CIO and SVA to combat the deindustrialization of America. We published several books, including *The Next Generation of Responsible Investing*; *Up from Wall Street: The Responsible Investment Alternative*; and *Working Capital: The Power of Labor's Capital*.

Heartland Network sponsors have invested profitably for decades in cities and industries around the country, and are seeking major investments in:

- **Built Environment:** Sustainable real estate, including low-income and workforce, multi-family housing, commercial and civic projects,
- **Industrial Commons:** Advanced manufacturing and technology firms, value adding industries,
- **Clean Economy:** Renewable energy, efficient transportation, infrastructure and energy efficiency.

From ETIs to ESG, Heartland researchers and our colleagues have contributed numerous books and papers to the literature of responsible investment, and inspired other authors. Heartland has been commissioned by the AFL-CIO and partners to author a Guidebook to help trustees implement responsible investment. The purpose of the Guidebook will be to illustrate how the investment of people's capital, such as pension and institutional funds, can be targeted to generate specific ESG benefits along with competitive financial and economic returns. It will show:

- The history of responsible investment, and Labor’s pioneering roles in building housing, banks, hospitals and services for workers for nearly a century
- The principles and regulations regarding RI, and the transition from ETIs (economically targeted investments) to ESG (environmental, social, governance)
- Good pension fund governance and corporate governance practices for capital stewards
- Best policies and practices and a sample of available tools to help implement RI and measure ESG impacts.

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[www.heartlandnetwork.org](http://www.heartlandnetwork.org)

**Mayor’s Innovation Project**

The Mayors Innovation Project is a learning network among American mayors committed to “high road” policy and governance: shared prosperity, environmental sustainability, and efficient democratic government. Around the country, mayors are taking the lead on pressing social issues—climate change, infrastructure, economic revitalization, health care, prison reentry, and more. We support and encourage this innovation by providing cutting-edge thinking and concrete examples that cities can use right away. The Mayors Innovation Project exists to help its member participants lead by example, share their experiences with peers, and make this argument for cities nationally.

The Mayors Innovation Project has been involved in municipal fossil fuel divestment since Seattle first announced it would divest in 2012, and has since worked to provide guidance, technical assistance, and research to local governments committing to divestment. We have also hosted several convenings of local governments and the financial sector to discuss prudent divestment.

See [www.mayorsinnovation.org/divestment](http://www.mayorsinnovation.org/divestment) for a local government divestment guide, model local government divestment resolutions, and recordings of webinars and presentations on divestment.

*James Irwin*, Associate Director  
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**Pax World Management LLC**

Pax World seeks to identify forward-thinking companies that are leaders in their industries, meet positive standards of corporate responsibility, and focus on the long term.

In developing and managing investment solutions, we seek to respond to the growing community of investment advisors, institutions and individual investors who believe that a company's astute management of its impact on the environment and society as well as its own operational governance are essential factors in its long-term success.

The Pax World investment process includes identifying top-down global investment themes, analyzing companies through bottom-up fundamental analysis, and integrating comprehensive sustainability and financial analysis. An experienced team of portfolio managers, financial and sustainability analysts, and trading professionals execute our clearly defined, disciplined, systematic, and repeatable investment process.

*Julie Fox Gorte*, Ph.D Senior Vice President for Sustainable Investing,

[jgorte@paxworld.com](mailto:jgorte@paxworld.com)

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### **RBC Global Asset Management, SRI Wealth Management Group**

Since 1983, the SRI Wealth Management Group has offered comprehensive investment strategies for sophisticated investors committed to social change. Today, our team of eight investment professionals consults on over \$1 billion in assets and is one of the leading investment consulting groups in the country exclusively focused on social and environmental investing. Our diverse backgrounds in finance, philanthropy and advocacy help us provide a unique investment experience. We provide a team approach to each client that ensures our ability to provide personalized, customized advice throughout the investment experience.

*Thomas Van Dyck*, CIMA®, Managing Director, Financial Advisor, Senior Consulting Group

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<https://www.rbcwmfa.com/sri/aboutus.htm>

**Trillium Asset Management** is an employee-owned investment management firm with over \$2.2 billion in assets under management\*. Trillium integrates Environmental, Social, and Governance (ESG) factors into the investment process as a way to identify the companies best positioned to deliver strong long-term performance.

Founded in 1982, Trillium has a long history of managing [equity](#) and [fixed income](#) portfolios for Individuals, Foundations, Endowments, Religious Organizations, Other Non-Profits, Financial Advisors and their Clients

A leader in shareholder advocacy and public policy work, Trillium leverages the power of stock ownership to promote social and environmental change while providing both impact and performance to our investors.

*Matt Patsky*, Partner, CEO, and Portfolio Manager

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<http://www.trilliuminvest.com/>

### **1worker1vote.org (1:1)**

1:1 is building a national network of unionized worker-owned cooperative businesses to overcome opportunity, mobility, and income inequality based on the 2012 United Steel Workers - Mondragon union-coop model template. Union co-ops are profit-seeking businesses reflecting the [Mondragon principles](#), benefitting from a collective bargaining agreement, dedicated to growing equal share equity for workers, fomenting solidarity, and building local living economies. Union co-ops operating under the Mondragon principles and USW-Mondragon template make sure no worker community -organized, unorganized, or alternative – is left behind. Incorporated in the State of New York, 1:1 has teamed up with CUNY Law School’s Community & Economic Development Clinic (CEDC) to develop union-coops in the NYC metropolitan region. The CUNY Law Foundation is 1:1’s fiscal agent. The co-founder and Executive Director of 1:1 is Michael Peck who serves as the Mondragon North America delegate (since 2000 - USA & Canada) on behalf of the Mondragon Cooperative Corporation and is an ASBC board member.”

*Michael Alden Peck*, Mondragon North America delegate

[mpeck@mapagroup.net](mailto:mpeck@mapagroup.net) (202) 412-2499 [www.1worker1vote.org](http://www.1worker1vote.org) [www.mapagroup.net](http://www.mapagroup.net)

**BALCONY** the Business and Labor Coalition of New York, is committed to finding common ground between business and labor. We are concerned about the ability of our families to find jobs, the ability of businesses to thrive in our diverse and ever-changing economy, the ability of homeowners to afford property taxes, the ability of our schools to teach our children and prepare them for our collective future, the ability of companies to afford health care, workers’ compensation and insurance benefits for their employees, and the ability of our state to fund programs necessary to provide a healthy and vibrant economy for New York.

*Lou Gordon*, Director BALCONY

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