

# Investing to Curb Climate Change



*A Guide for the Institutional Investor*



The Forum for Sustainable and Responsible Investment

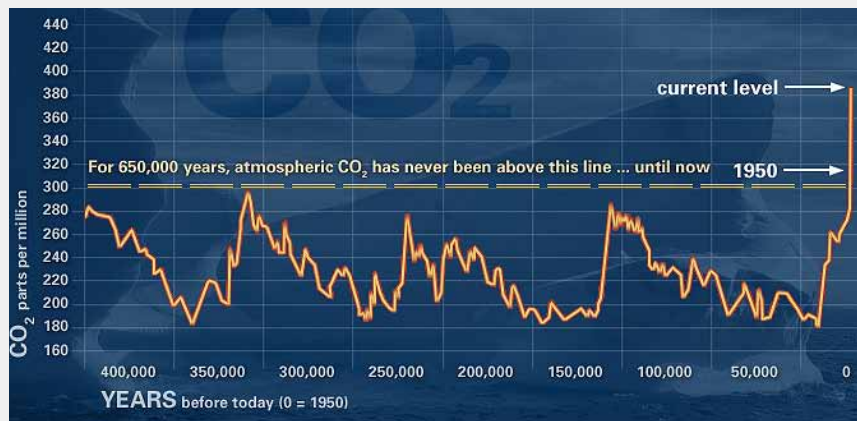


## The problem

The fact that you are reading this brochure shows that you are concerned about the urgent problem of climate change. The facts are stark.

The world's governments have largely agreed that planetary warming must be limited to no more than 2°C (3.6°F) above the average global temperature human civilization experienced before the Industrial Revolution. However, the earth has already warmed 0.8°C since 1880, and the damage—in melting sea ice, heat records and more severe weather events of all kinds, from wildfires and droughts to hurricanes and floods—has been more severe than many scientists had predicted. The global warming of the last several decades has been caused largely by human activities—in particular the burning of fossil fuels such as coal, oil and gas—that add to atmospheric concentrations of carbon dioxide and other greenhouse gases that trap heat from the sun. The concentration of carbon dioxide has risen from 280 parts per million in 1750 to 379 in 2005 to 400 in 2013.

### Climate change: How do we know?



This graph, based on the comparison of atmospheric samples contained in ice cores and more recent direct measurements, provides evidence that atmospheric CO<sub>2</sub> has increased since the Industrial Revolution (Source NOAA). NASA website: <http://climate.nasa.gov/evidence/>.

To have a chance at staying within the 2°C limit, climate scientists say the world's human population must add no more than about 565 gigatons of carbon dioxide to the Earth's atmosphere. However, the Carbon Tracker Initiative, a group of financial analysts based in London, estimates that the world's coal, oil and gas companies as well as the countries, such as Venezuela and Saudi Arabia, that control and develop fossil fuel reserves, have reserves sufficient to put another 2,795 gigatons into the atmosphere.<sup>1</sup>

Despite these disturbing numbers, many fossil fuel companies and other companies continue to lobby against measures such as a carbon tax or regulations to cut carbon emissions from electrical power plants. Numerous prominent companies pay dues, make contributions to or sit on the boards of organizations that oppose legislation and regulation to curb greenhouse gas emissions.

## Who should use this guide?

This guide is designed for institutional investors, such as foundations, family offices, university endowments, pension funds, insurance companies, banks, and registered investment companies. This guide is also relevant for individuals who are accredited investors.

1. <http://www.carbontracker.org/carbonbubble/>;  
<http://www.rollingstone.com/politics/news/global-warnings-terrifying-new-math-20120719>

# Your investments

As an investor, can you help move the US economy towards a lower carbon path?

Yes you can—provided you exercise your vote, voice and powers as an investor.

As an accredited individual or institutional investor, you (or your institution) own shares in companies or corporate bonds, perhaps through separately managed accounts. In addition to corporate bonds, you may hold other types of bonds and fixed income investments. You may also have investments in mutual funds and exchange-traded funds. You may have holdings in such alternative investments as private equity, real estate and hedge funds. Finally, you have checking accounts, certificates of deposit or other cash-like investments.

## PUBLIC EQUITIES (DIRECT HOLDINGS)

For the shares you own directly, you have several options: to buy or continue to hold shares of companies whose climate change policies and actions you approve of, to sell shares of companies whose climate change actions and policies you disapprove of, and to use your voice and vote as a shareholder.

**Review your portfolio companies to reduce its carbon intensity:** Companies may report on climate change issues in their annual reports and 10-K forms. In Section 1A of the 10-K, they will discuss their risk factors and whether they perceive the impact of climate change or regulations to control greenhouse gas emissions to be among those risks. Check companies' websites to see if they publish corporate responsibility or sustainability reports and if so, whether they have set greenhouse gas emission reduction targets and are making progress in meeting them. Another source is CDP (formerly the Carbon Disclosure Project), an international investor initiative that encourages publicly traded companies to report on their greenhouse gas emissions and their strategies for managing climate change risk. More than [4,000 companies](#) currently report this information to the CDP.

If your institution would prefer the guidance of an index to help reduce the overall carbon-intensity of your portfolio, a number of low-carbon equity investing indices have been developed. Some of these include the [DJSI Series](#), [FTSE4GOOD Index Series](#), [MSCI ESG Index Series](#), and [S&P US Carbon Efficient Index](#).

Alternatively, you may wish to purchase research conducted by firms that specialize in assessing companies on various environmental, social responsibility and corporate governance (ESG) issues, including their greenhouse gas emissions and commitments to reducing their carbon footprints. To find a list of these firms, visit the [directory of financial services offered by US SIF members](#): under "Directory Categories," select "Research & Index Providers."

### THE IMPACT OF SHAREHOLDER ACTION

At TJX, a discount retailer of apparel and homewares, Newground Social Investment was able to withdraw a proposal on climate change issues in 2010 when the company agreed to produce a full sustainability report in 2011, disclose its climate risks and create a US team with the sole purpose of improving the company's sustainability performance. The agreement followed many years of dialogue between TJX and investors. As of 2013, the company was continuing to observe and build on these commitments.

In 2009, a proposal from Trillium Asset Management asking [Idacorp](#), an electric utility, to set greenhouse gas emission goals was supported by 51 percent of the shares voted, prompting the company to set a goal of reducing its carbon dioxide emissions intensity in the years 2010–2013 to 10–15 percent below the level in 2005. In its 2012 sustainability report, it reported that it had succeeded in reducing its carbon intensity 27 percent in 2012 from the 2005 level.

**Make your vote count:** At a minimum, you should pay close attention to the shareholder resolutions that are coming to votes at the annual meetings of your portfolio companies and to be sure to vote your shares. In the 2013 annual meeting season, numerous shareholder resolutions came to votes that asked fossil fuel companies to adopt quantitative goals to reduce the greenhouse gas emissions from their products and operations.<sup>2</sup> One coal company was asked to report on the likelihood that its assets could be "[stranded](#)" as governments begin to impose curbs on carbon. Additionally, major companies, including fossil fuel companies, were asked to disclose their political and lobbying expenditures or to refrain from political lobbying.

If you rely on investment managers to vote your shares, make sure that they are voting in accordance with your views. Proxy advisory firms ISS (a division of MSCI) and Glass Lewis can help you draft proxy voting guidelines for your institution; they can also vote your institution's shares in accordance with

2. For one summary of 2013 climate change shareholder resolutions, see <http://www.ceres.org/press/press-releases/110-shareholder-resolutions-related-to-climate-change-and-fossil-fuel-use-yield-strong-results-during-2013-proxy-season>

these guidelines. The [Interfaith Center on Corporate Responsibility](#) (ICCR), [As You Sow Foundation](#) and the [Sustainable Investments Institute](#) provide background on climate change and other environmental issues being raised in shareholder proposals as well as lists of shareholder resolutions that have been filed for votes at US companies' upcoming annual meetings.

Shareholder resolutions on environmental issues and political lobbying generally do not win majority support; nonetheless, vote levels of 20 percent or higher are a strong signal to company management that a significant bloc of shareholders is concerned about such issues and can help inspire companies to act.

**File a resolution:** You may also wish to file your own shareholder resolution. You are eligible to file a resolution if you can document that you have owned \$2,000 worth of the company's stock for a year as of the date you file the resolution.

To find the deadline by which your resolution must be submitted to be considered for inclusion in a company's proxy statement for next year's annual meeting, find its most recent proxy statement on the "[Edgar](#)" site of the Securities and Exchange Commission (SEC). Enter the company's name where indicated and then "DEF 14A" for its definitive proxy statement. The deadline for filing shareholder resolutions is usually given under "Other" or "Additional" Information in the proxy statement, and will typically be about five and a half months before the next annual meeting. The same section of the proxy statement will give the name, title and address of the corporate officer to whom the shareholder proposals should be submitted.

Your shareholder resolution must also meet certain other requirements established under rules administered by the SEC. Proposals are limited to 500 words and cannot contain false or misleading information or be motivated by a personal grievance. In addition, you or your designated representative must attend the annual meeting in person to present the proposal formally. To find models or templates to follow in drafting your resolution, you may wish to consult the [list of shareholder resolutions filed by investors affiliated with ICCR](#).

If you are a first-time filer, consider partnering as a co-filer with a more experienced shareholder advocate.

**If you divest, send a message:** If you own shares in fossil fuel companies, you may choose to divest if you believe that shareholder activism is not sufficient to change these companies' long-term business plans to extract dangerous levels of fossil fuels. To ensure that a company knows why you have divested, you should inform the company's investor relations department.

Additionally, should you choose to divest, it is critical to "reinvest" in companies and financial products that help build a clean energy economy. Reinvestment information may be accessed on the US SIF [website](#).

(For a discussion of equities you hold indirectly through funds, see "Mutual Funds and Exchange-Trade Funds" below.)

## FIXED INCOME (DIRECT HOLDINGS)

You can screen corporate bonds the same way you screen public equities—avoiding bonds in carbon-intensive companies, for instance, in favor of bonds in companies that offer energy efficiency solutions, generate renewable energy or are actively reducing their carbon footprints. Some of the research firms listed in US SIF's Financial Services Directory provide research on corporate bond issuers.

Other fixed income options include [World Bank Green Bonds](#), municipal bonds for transit-oriented development and other projects that reduce carbon intensity, and notes offered by community development loan funds that promote transit-oriented development, energy efficiency retrofits for buildings, sustainable agriculture and other environmentally oriented projects.

Two sources of information on community development loan funds are [Opportunity Finance Network](#), which provides an online directory of loan funds (and other financial institutions) that are certified by the US Treasury as Community Development Financial Institutions (CDFIs), and [CARS](#), an independent CDFI rating service, which offers an online search guide to CDFI loan funds that have undergone CARS's extensive due diligence evaluation.

US SIF's online chart of "[Separate Account Managers in Sustainable and Responsible Investing](#)" can help you identify separate account managers offering fixed income strategies that take into account climate concerns. Filter the chart for "fixed income" and click on the screening and advocacy tab to see which strategies consider climate change criteria in portfolio selection or invest in clean energy.

## MUTUAL FUNDS AND EXCHANGE-TRADED FUNDS

You or your institution may also own shares in mutual funds and exchange-traded funds that invest in stocks and bonds.

**Learn about your funds:** You can learn about a fund's investment philosophy from its summary [prospectus](#), which you can find online. If the fund takes social responsibility or environmental concerns into account in selecting its portfolio, that will be mentioned in the prospectus. Funds that invest in equities also have a responsibility to vote their shares (proxies) in portfolio companies, and are required to provide a [record of how they voted](#), called an "N-PX" report, under [rules issued by the SEC](#). The report will list each resolution and whether it was proposed by the company management or by shareholders, how the fund voted and whether that vote was "for" or "against" the company's recommendation. N-PX reports are lengthy, so you should probably search by key words, such as "carbon," "GHG" or the names of companies where you know or suspect climate change-related resolutions were voted.

**Express your views to fund management:** If you don't see evidence that the funds in which you are invested have thoughtful voting or investment policies on climate change, contact the fund company to express your concerns. Mutual fund companies are sensitive to customer opinion, and are likely to develop or modify their products if they believe there is sufficient customer demand.

**Switch funds:** You may also wish to switch funds. A good place to start is the [list of mutual funds](#) offered by members of US SIF. By clicking on the screening and advocacy tab, you can see which ones consider climate change criteria in portfolio selection or invest in clean energy or energy efficiency. Some of these funds do not invest in fossil fuel companies. You can also see which equity funds file shareholder resolutions or communicate with portfolio company management on environmental and social issues. The proxy voting tab provides quick links to the funds' proxy voting guidelines and records.

Some clean energy exchange-traded funds can be found on a [list](#) compiled by Kapital Wire.

**Add SRI options to your institution's retirement plan:** If your institution's retirement plan does not offer funds with thoughtful policies on climate change, consider adding some to the plan lineup. You may wish to share US SIF Foundation's [Resource Guide for Plan Sponsors](#) with your plan's investment committee.

## ALTERNATIVE INVESTMENTS

As US SIF Foundation noted in its 2012 [Report on Sustainable and Responsible Investing Trends in the United States](#), a growing number of alternative investment vehicles consider climate change and other environmental criteria. The 2012 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 (with \$63 billion in assets) that financed green building and smart growth, and 24 property funds (\$38 billion) and 18 hedge funds (\$2.61 billion) that considered climate change or carbon criteria.

Numerous resources and networks exist for accredited investors interested in alternative investments geared toward climate solutions. A short list includes:

- [SJF Ventures](#) and [Investors' Circle](#), which help link angel investors, venture capitalists, foundations and family offices with enterprises that seek to improve the environment and generate other social benefits.
- [Bloomberg New Energy Finance](#), which has created a database of clean energy and carbon investment activity that includes information on private equity and venture capital funds targeting clean energy projects and technologies.
- [ImpactBase](#), an online global directory of impact investment funds developed by the Global Impact Investing Network for accredited investors.

Several resources and links for investors interested in transit-oriented development and sustainable agriculture initiatives that benefit underserved communities are listed in [Expanding the Market for Community Investment in the United States](#), available on US SIF's website.

Another US SIF Foundation resource on alternative investments is [Sustainability Trends in US Alternative Investments](#).

## CASH AND CASH EQUIVALENTS

Banks and financial institutions can be part of the climate change solution—by financing transit-oriented development and clean energy alternatives, for example—or part of the problem. As ICCR noted in a recent publication:

*Banks and other financial institutions contribute to climate change through their “financed emissions”—i.e., the greenhouse gas footprints of their loans, investments, and financial services. One of the less-understood drivers of climate change, banks’ financed emissions can dwarf their other climate impacts and expose them to significant reputational, financial, and operational risks.<sup>3</sup>*

An [annual coal finance report card](#), prepared by Rainforest Action Network, Sierra Club and BankTrack, for example, identifies the top US banks financing coal in 2012; three of them each lent or underwrote more than \$2 billion to companies engaged in mountaintop removal coal mining or to electric utilities that are expanding or extending the lives of their coal-fired power plants.

### FINDING PROFESSIONAL INVESTMENT HELP

You may wish to employ the services of an investment management firm that specializes in sustainable and responsible investing approaches. A good place to start is US SIF’s online chart of [“Separate Account Managers in Sustainable and Responsible Investing.”](#) Many of these firms offer low-carbon equity strategies or can customize their strategies to exclude fossil fuel companies. Filter the chart for the equity asset class of interest (e.g., US large cap, international), and click on the screening and advocacy tab to see which strategies consider climate change criteria in portfolio selection or invest in clean energy or energy efficiency. These firms often have their own ESG research departments or purchase data from ESG research firms. Many will also assist clients in filing shareholder resolutions on ESG issues, including climate change concerns.

You may also want to enlist the assistance of a financial advisor or consultant with expertise in sustainable and responsible investing options and strategies. A good place to start is the [directory of financial services offered by US SIF members](#). Under “Directory Categories,” select “Financial Advisors and Brokers” or “Investment Consultants.”

You may want to identify banks or other financial institutions that incorporate climate and other environmental concerns into their business plans. 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](#).

You may seek to open accounts in, or purchase certificates of deposits and other cash-like instruments from, banks and credit unions that have a mission of sustainable and responsible investing and community development. These banks and credit unions have a commitment to financing small businesses, non-profits, commercial real estate and affordable housing, which may include loans for energy efficiency retrofits, in low- and middle- income communities. To find a community development bank or credit union, please visit:

- [National Federation of Community Development Credit Unions](#)
- [National Community Investment Fund](#)
- [Community Development Bankers Association](#)

More background on community development banks and credit unions can be found in [Options and Innovations in Community Investing](#), available on US SIF’s website.

## Your community

In addition to your own investment accounts, you or your institution may also have some ability to influence the investment actions of organizations on whose boards or advisory committees you serve or with which you have other connections. These could include non-profit organizations, university endowments, religious institutions and local government operating funds and pension funds. Consider asking the investment committee or trustees how they vote proxies and whether they consider climate concerns in portfolio selection. A recent [guide](#) from the Interfaith Center on Corporate Responsibility, which responds to investor requests for bolder strategies to address climate change, may be a helpful resource for religious institutions and other organizations.

3. Interfaith Center on Corporate Responsibility. 2013 Proxy Resolutions and Voting Guide, p. 27.

# Your public policy actions

As an accredited investor concerned about climate change, it is important for you or your institution to engage on public policy issues. Let your local, state and federal officials know that you want them to take action against climate change and support the path to a low carbon energy economy.

You can join thousands of other investors, large and small, who have petitioned the SEC to require companies to disclose their political contribution and lobbying expenditures. Because numerous prominent companies pay dues, make contributions to or sit on the boards of organizations that oppose legislation and regulation to curb greenhouse gas emissions, by pushing companies to disclose their political contributions and lobbying expenditures, investors concerned about climate change can make a difference. US SIF and many other investors signed a letter in support of this petition, which you can find [on the SEC website](#). You can also add your voice in support of this petition. Public Citizen provides a [model letter](#) that you may use or adapt.

You can tell your elected representatives in the US Congress that you support regulations—expected soon from the US Environmental Protection Agency—to curb greenhouse gas emissions from new and existing power plants. See US SIF’s [recent statement on President Obama’s climate action plan](#) and why sustainable and responsible investors support it.

You can also tell your members of Congress that you support changes in federal policies that will allow investment in renewable energy developments to receive the same benefits now available to oil, gas and real estate projects, as many investors announced in a [press release](#) issued by the Ceres investor group.

You can let your state legislators know that you approve the continuation or expansion of requirements for utilities serving the state to get a certain minimum percentage of their power supply from renewable sources. You can view a state-by-state list of these renewable portfolio standards and related policies at the [“DSIRE” Database of State Incentives for Renewables and Efficiency](#).

## For further reading

### BASIC INFORMATION ON THE SCIENCE AND IMPACT OF CLIMATE CHANGE

[Climate Change: Basic Information](#) (EPA)

[Intergovernmental Panel on Climate Change](#)

### INFORMATION ON INVESTMENT RISKS AND OPPORTUNITIES

[Universal ownership: Why environmental externalities matter to institutional investors](#) (Trucost)

[Policy Parity can Unlock Energy Investment](#) (CERES)

[Portfolio Carbon: Measuring, disclosing and managing the carbon intensity of investments and investment portfolios](#) (UNEP-FI)

### ABOUT THIS GUIDE

*Investing to Curb Climate Change: A Guide for the Institutional Investor* is part of US SIF Foundation’s “How do I SRI?” series of practical guidebooks. Each guide focuses on a social or environmental problem and the strategies through which investors can address it. The series is made possible through funding from the Wallace Global Fund.

*Disclaimer: This report is provided only for informational purposes and does not constitute investment advice.*





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