Testimony regarding S.28 before the

Vermont Senate Committee on Government Operations

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My name is Eric Becker. Thank you for once again giving me the opportunity to testify regarding fossil fuel divestment legislation. I am the chief investment officer of Clean Yield Asset Management, a registered investment advisory firm based in Norwich. Clean Yield manages socially and environmentally screened investment portfolios, including fossil fuel free portfolios, for individuals and families. We have approximately $280 million in assets under management. Previously I was a portfolio manager at Trillium Asset Management in Boston. I earned the Chartered Financial Analyst designation in 1996 and have over 20 years of professional investment experience.

I am here to testify for the fifth time because the evidence in favor of divestment gets stronger by the day. Over the last year, indeed over just the past few months, the rationale for fossil fuel divestment has gained even more weight and urgency.

By now you're probably all familiar with the notion of carbon risk. To recap briefly, the science tells us that to keep the planet from warming no more than two degrees Celsius, about 80% of known fossil fuel reserves need to remain in the ground. Last August, Citigroup's equity research group put a financial figure on those stranded assets between now and 2050. They arrived at a figure of $100 trillion. Not $100 billion. $100 trillion. This is a nearly unfathomable risk for the companies that own fossil fuel reserves.

Meanwhile, the OECD put a financial figure on the impact of climate change on global GDP based on different warming scenarios, finding that unmitigated warming would cost $72 trillion to global GDP over the next 45 years, while holding warming to 1.5 degrees Celsius would reduce the impact to $20 trillion. I believe this is the real reason that global leaders finally came to a meaningful agreement at the Paris climate talks – because they see the threat to their economies of not taking action. And it is telling that the final agreement in Paris included the 1.5-degree target, which would mean leaving an even greater portion of fossil fuel reserves in the ground than the 2-degree target I mentioned earlier.

While the Paris agreement does not set the binding targets that many hoped for, it puts global society on a path to rapidly reducing fossil fuel consumption. Through government policy, regulation, clean energy innovation, energy efficiency, and market mechanisms, the end of the fossil fuel age now appears inevitable.

Against this backdrop, the fossil fuel divestment movement has taken off. There are now more than 500 institutions with over $3.4 trillion in assets that have committed to divesting from fossil fuels. This includes CalPERS and CalSTRS, the California State pension funds, Stanford University, Syracuse University, the United Methodist Church pension funds, and the Rockefeller Brothers Fund. These are not unsophisticated funds run by hippie environmentalists. These are smart, sophisticated fiduciaries doing their duties with prudence and care.

Naturally, this rapidly growing movement of dollars away from fossil fuels has garnered Wall Street's attention. Many fossil fuel free indexes have been launched over the last 18 months, from institutions including S&P, FTSE/Blackrock, and MSCI. These are the world's leading index providers. This is mirrored by the development of new fossil fuel free investment offerings from Blackrock, Parametric, and State Street Global Advisors.

What has also become clear is that fossil fuel free indexes have performed as well as or better than their comparable benchmarks at no additional risk. The US Fossil Free Index, which has been back tested from the beginning of 2004 through September 2015, has outperformed the S&P 500 over that period, 7.38% to 6.92% annually. The risk of the fossil fuel index as measured by volatility, was a hair lower than the S&P 500. The numbers are similar for the MSCI EAFE fossil free index, which outperformed the standard MSCI EAFE benchmark by about 0.1% at slightly lower volatility, from the beginning of 2004 through 2014. The numbers would be even better if extended through the end of 2015.

These data should put to rest the myth that one need give up investment returns or increase risks to divest the pension funds from fossil fuels. The hard evidence directly contradicts that assertion. So I would urge Treasurer Pearce to refrain in the future from quoting the outdated and flawed NEPC report to argue that the Vermont funds would forego $9 million annually in order to divest. On the contrary, the Decarbonizer study released in November showed that over the past three years the Vermont funds gave up about $77 million in gains by remaining invested in fossil fuels.

In summary:

- The Carbon Bubble presents significant risks to owners of fossil fuel reserves as pressure increases to limit the burning of fossil fuels.
- There is no evidence of a return penalty for divesting from fossil fuel companies.
- Fossil fuel free index returns show comparable or lower risk than their benchmarks.
- 500+ institutions with $3.4 trillion in assets have committed to divest.
- Fossil free investment options are quickly emerging for institutional investors.

I hope the committee will move this legislation forward. Fossil fuel divestment makes sense for the pension funds' beneficiaries as well as Vermont's taxpayers, as it will reduce the risk of the funds without compromising returns.

Thank you. I'd be happy to answer any questions.