Testimony regarding S.131 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. 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 $250 million in assets under management. We do not manage money for pension funds, so we are not a prospective manager of the state’s funds. We have no vested interest in the outcome of this debate. Previously I was a portfolio manager at Trillium Asset Management in Boston, where I served as co-manager of the Green Century Balanced Fund, an environmental mutual fund with a fossil-fuel free mandate. I earned the Chartered Financial Analyst designation in 1996 and have over 20 years of investment experience.

With the revisions to the bill defining divestment as exclusion of the Carbon Tracker 200 over a five year period, I support the bill even more enthusiastically for two main reasons. First, with the narrower definition of fossil fuel stocks as just those top 200, the impacts to investment risk and return will be even more limited than under the previous version of the bill. Second, the revised bill will allow VPIC adequate time to find suitable alternatives as it divests its existing fossil fuel holdings.

When I last testified, I referred to the Aperio Group study that analyzed the impact of excluding the entire domestic Oil, Gas and Consumable Fuels industry. The latter includes approximately 233 U.S. stocks. The proposed legislation would require the Vermont pension funds to avoid a smaller number of stocks than that, and the impact would therefore be more limited. To very briefly recap, Aperio's study found that avoiding the entire Oil, Gas and Consumable Fuels industry would result in an increase in the risk of the total stock portfolio by 0.01%. Excluding the smaller subset of stocks that are members of the Carbon Tracker 200 would therefore add less than one one-hundredth of a percent to the riskiness of the stock portion of the VPIC portfolio. And remember, stocks account for less than a third of the total VPIC portfolio, so the true increase in risk to the overall portfolio is under a third of that. Likewise, the theoretical return penalty for a stock portfolio that excludes the Carbon Tracker 200 is less than the 0.0034% that Aperio found from excluding a larger number of companies. The bottom line is that these are both insignificant numbers that are more than offset by avoiding the risk of the Carbon Bubble.

The second key change from last year's version of the bill is the timeline. Last year's bill called for full divestment by this past January 1st. This would have been extremely challenging since a year ago there were few fossil fuel free investment funds and a limited number of investment managers with such experience. That is changing, but the revised timeline will allow VPIC to prudently determine how it will reinvest its assets as it divests from the Carbon Tracker 200. With the surge of interest in fossil fuel free investing over the past two years, the investment industry is responding. A new set of stock indexes explicitly designed to exclude the Carbon Tracker 200 is due to be released this year (http://fossilfreeindexes.com/). This will allow for the development of new funds and investment products to track these benchmarks. The five-year window offered in the legislation will be more than adequate to evaluate these new investment options and make good investment decisions.

Since last year there has been additional research published on the risks of investing in fossil fuel stocks. This research looks at ways in which fossil fuel companies will be impacted as the global community moves to live within a carbon budget in order to limit warming to a maximum of 2 degrees Celsius. Adherence to any such budget will require that at least two thirds of known fossil fuel reserves be left in the ground, making them stranded assets. It's important to note that many of these impacts will be felt even if there is no coordinated global effort to reduce emissions. Even a piecemeal approach will likely profoundly affect the profitability and balance sheets of fossil fuel companies.

The Generation Foundation published an excellent report on the subject last fall entitled, "Stranded Carbon Assets: Why and How Carbon Risks Should Be Incorporated in Investment Analysis." That report identifies three public-policy related risks to fossil fuel companies:

1. Regulation: both direct, indirect, and impending
2. Market forces: increasing availability of affordable clean energy alternatives
3. Sociopolitical pressures

The point is that the risks for companies with significant carbon resources on their balance sheets is very real and will likely come into sharper focus in the near future. In my view, continuing to invest in these companies is a far greater risk than the miniscule risks of avoiding them.

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