Corporate Knights
The Company for Clean Capitalism

# Presentation to Senate Committee on Government Operations, Feb 4, 2016

## By Toby Heaps, CEO, Corporate Knights

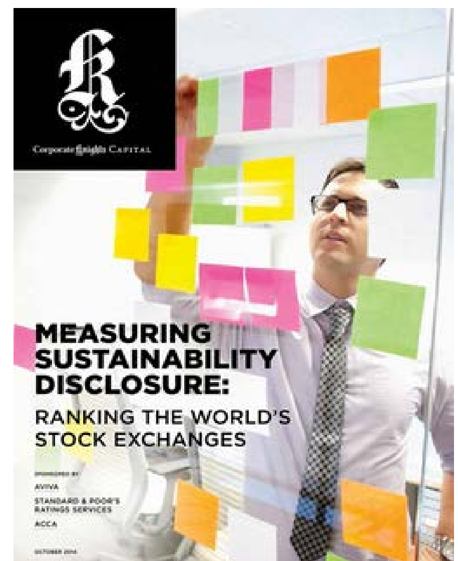
# About Corporate Knights

Independent Canadian-based media and financial research B Corp

More than a decade of experience quantifying corporate sustainability including: *Global 100 Most Sustainable Corporations in the World*
*Newsweek Green Rankings*
*Sustainable Stock Exchanges Ranking*

Designed and developed software to measure and clean portfolios to investor specifications

Assist financial industry initiatives that raise awareness about climate risk, such as the Montreal Carbon Pledge and act as secretariat to Council for Clean Capitalism

# Why Not Divest?

*Divestment likely would result in losses of up to $9 million each year, in addition to large upfront costs associated with the changed investment strategy*

**False:**

- Not divesting fossil fuels cost VPIC in excess of $77 million over the past three years, more than $25 million per year in lost returns, according to the Corporate Knights Clean Capitalist Decarbonizer scenario testing tool (www.decarbonizer.co). Both the coal free and fossil free VPIC portfolios Corporate Knights tested had superior risk-adjusted rates of return (higher sharpe ratio) that the existing VPIC portfolio.

- The NEPC assumptions around increased transaction costs, and increased asset management fees are gross over estimates. If managers are provided a clear list of no go stocks, and given a reasonable amount of time to unwind their positions the transaction costs would be a small fraction of the assumed amounts. There are numerous fossil free index products priced on par with conventional indices and whether separately managed accounts or active, most global investors do not pay a premium to have a well demarcated no-go list respected.

- On a 10 year basis to Dec 31, 2015, Fossil Free US S&P 500 has outperformed the S&P 500 by over 10%. http://fossilfreeindexes.com/fossil-free-indexes-us/

- In Paris at the UN Climate Summit, 196 countries agreed to phasing out fossil fuels this century. Over the long-term (10 years or greater), the fossil fuel sector is not expected to outperform the greater market, particularly companies associated with thermal coal.

# Why Not Divest

*It sets a bad precedent for legislators to begin meddling in state retirees' pension funds.*

**False:**

- The divestment precedent already exists for VPIC (Tobacco and Sudan).

- Investors with over $10 trillion in AUM currently maintain do not invest lists that their managers respect.

- It is not beyond the remit of legislators to implement a do not invest list for a small portion of the investment universe for companies who are on the wrong side of history on one of the most pressing moral issues our time and at high risk for underperformance and stranded assets amid the energy transition away from fossil fuels.

- That is why California has required CalPERS and CalSTRS to divest from investments in coal companies and why Norway has done the same for the Norway Oil Fund.

# Why Not Divest

*Divestment wouldn't actually change anything*

**False:**

- If we have learnt one thing about previous high-profile divestment campaigns, it is that they work. As the Oxford divestment study points out: "In almost every divestment campaign we reviewed, from adult services to Darfur, from tobacco to South Africa, divestment campaigns were successful in lobbying for restrictive legislation affecting stigmatised firms".

  http://www.smithschool.ox.ac.uk/research-programmes/stranded-assets/SAP-divestment-report-final.pdf

- That is part of the reason why investors with over $3.4 trillion in assets have committed to fossil divestment, a more than 50-fold increase in the past year.

*Instead of divesting, Vermont can best fight carbon pollution by retaining ownership and engaging with the companies that most contribute to it.*

**False:**

All talk and no walk is not credible. An investor who has walked the talk by selectively divesting from recalcitrant companies is more credible when it engages with companies it still owns on matters such as what is their business plan for a zero-net carbon world.

# Summary

- There is no credible moral or economic case not to divest from thermal coal miners and utilities, which comprise 1.5% of the VPIC portfolio and account for 44% of greenhouse gases globally.

- Divesting from all fossil fuel companies (7.3% of VPIC portfolio) would have been economically positive for VPIC over the past three years and is highly unlikely to economically negative over the next ten years as the sun sets on the fossil fuel economy.

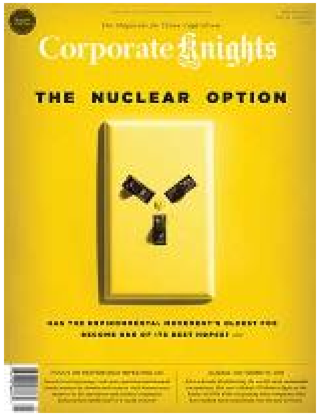
- It is important to implement a fossil free policy carefully, incorporating do not invest list to all future RFPs,  and allowing existing managers a reasonable time frame to unwind their fossil positions.

- VPIC fossil divestment would be best focused on all investable asset classes with the possible exception of broad market derivatives for risk management purposes.

- Corporate Knights would be happy to work with VPIC to establish and maintain a do not invest list for one pint of Ben and Jerry's maple tree hugger ice cream per year.

# Contact


**Toby Heaps**
Chief Executive Officer, Corporate Knights
+ 1 416 203 0066
toby@corporateknights.com



# Appendix: Who is Cleaning their Portfolios

**ABP** introduced an internal carbon budget for its asset managers in 2015, designed to reduce its CO2 footprint of its portfolio equity holdings by 25%, as well as doubling its €29bn equity holdings in equities providing environmental and social solutions over the next five years

**AXA** divested from all coal holdings (mining companies and electric utilities deriving over 50% of their turnover from coal) in 2015 and committed to triple its green investments by 2020

**Allianz** announced it will no longer invest in companies that derive more than 30% of revenue from coal mining or generate over 30% of their energy from coal

**University of California** announced divestments from coal and oil sands in September 2015

Dutch health care sector pension scheme **PFZW** announced by 2020 it would divest from around 250 fossil fuel companies and engage with others, thereby cuttings its portfolio carbon footprint in half, while quadrupling its exposure to companies providing environmental solutions

**The Church Commissioners and The Church of England Pensions Board** announced a £12m carbon divestment in April 2015, saying “From today neither body, nor the CBF Church of England funds, will make any direct investments in any company where more than 10% of its revenues are derived from the extraction of thermal coal or the production of oil from tar sands”

# Appendix: Clean Capitalist Data Sources

Secure **interactive portfolio footprinting tool** to benchmark, measure and manage exposure to carbon and other ESG factors. Covers **8,500 securities** including major indices.

**Carbon and coal**: South Pole Group

- Detailed methodology of verified self-reported greenhouse gas data, combined with modelled carbon intensity for non or poorly reporting companies.
- Based on sector dependency data and life-cycle analysis principles.
- Estimation based on bottom-up sector-based modelling for Scope 1 and 2, using 800 sector sub-sector specific models.
- EEIO modelling for Scope 3 upstream and life-cycle analysis data for Scope 3 downstream.
- One-to-one company sector mapping to proprietary classification system

**Fossil Reserves**: Fossil Free Indexes

**Climate governance**: CDP, Oekom

**Market data**: Bloomberg

Best-in-class analysis conducted with Sustainability Industry Classification System (SICS) provided by Sustainability Accounting Standards Board