Stand.earth
548 Market Street
Suite 74196
San Francisco, CA 94104

My name is Amy Gray and I am the Senior Climate Finance Strategist at Stand.earth (https://www.stand.earth/). I present testimony in support of S42. Stand.earth is an international environmental advocacy group which coordinates the Climate Safe Pensions Network working to de-risk pension funds and accelerate investments in climate solutions. We urge the legislators of Vermont to support the passage of the bill.

I am writing particularly in response to the VPIC Carbon Reduction and Mitigation policy submitted by Thomas Golonka, VPIC Chair and Kimberly Gealson, VPIC Vice Chair. This policy states that VPIC is opposed to divestment and upholds that 'VPIC firmly believes that active and direct engagement is the best way to address risks in the portfolio."

In the decade since the fossil fuel divestment movement launched, we've seen two key trends on shareholder engagement and climate resolutions: (1) an increase in the introduction of, and shareholder support for, climate action and reporting; and (2) fossil fuel corporate boards rejecting these resolutions despite increasing demand for climate action and transparency.

Now, a decade of data affirms that fossil fuel divestment is a winning financial strategy, including early adopters of divestment strategies reporting neutral or positive financial results. We've also consistently seen fossil fuels underperform market returns over this timeframe, with indexes without fossil fuels garnering higher returns.

Despite the rise in shareholders demanding climate action, there's no evidence to date that engagement with fossil fuel companies specifically has led to meaningful pollution reduction. Even after the move to get 3 new board directors at Exxon, which many claimed as a major victory for shareholder engagement, the company moved ahead with opening up new, greenfield extreme oil exploration in Guyana.

Increasingly, institutions are giving up on futile engagement with coal, oil, and gas companies amidst general unwillingness to align with climate science. For example, Netherlands' ABP pension, the 5th largest pension in the world, announced fossil fuel divestment in October 2021, citing lack of change and following years of attempted engagement.

The financial impact is continuing to come into shape: In June 2020, Germany's University of Augsburg released an academic study on the impacts of divestment on share price and portfolio financed emissions, revealing high decarbonization selling pressure (DSP) – or divestment –

pressures stock prices downwards, and that divested firms who experienced "stock price decline subsequently reduce their carbon emissions compared to non-divested firms." A February 2022 analysis of University of Augsburg's continued research by Corporate Knights reaffirmed that divestment "exerts sufficient selling pressure to cause the stock prices of climate-damaging stocks to fall in the long run."

The question arises: won't less scrupulous investors buy up the stock that is divested? When it comes down to it, if engagement is not working (and evidence proves with fossil fuel companies, it is not), other tools must be employed. Growing evidence shows restricting access to capital, driving up capital costs, and decreasing political influence of fossil fuel companies is having an impact.

Bottom line: coal, oil, and gas companies are structurally failing, and financial institutions – including pension funds (the longest-term investors) – are propping up the industry at the risk of our climate, communities, and economy.

With over 80% of the world's population experiencing extreme weather linked to climate change, investments and subsequent divestments have become a focal point for mitigating the financing behind the planet's most destructive industry. As the Chair of the House Oversight Committee said: "Even though Big Oil CEOs admitted to my Committee that their products are causing a climate emergency, today's documents reveal that the industry has no real plans to clean up its act and is barreling ahead with plans to pump more dirty fuels for decades to come."

Further, divestment should be looked at as a responsible fiduciary act. It is legally sound and fiscally right. And it is no longer novel. With a decade of data, more than 1500 institutions representing over $40 trillion in assets have committed to some form of divestment. A recent report by the Institute for Energy Economics And Financial Analysis shows increased support and evidence for the case for fossil fuel divestment. This report addresses the many arguments against fossil fuel divestment and updates a 2018 IEEFA report.

The opponents of divestment made a simple case that divestment would lose money. It was not true then, and is less true now as hundreds of funds adopting various paths of divestment have maintained their investment targets. These include very large, mainstream banks, insurance companies and pension funds. New York State, New York City, Washington DC, Chicago, Baltimore, Minnesota, San Mateo County, Los Angeles are all US examples of public pension funds that have implemented or are pursuing divestment. They have done thorough legal and financial checks. Notably, in 2021 Maine became the first state in the US to pass comprehensive divestment legislation, directing its state treasury and state pension fund to divest from all fossil fuels, including private equity funds. These examples speak to the mainstream regard of fossil fuels by funds and institutions that have a fiduciary requirement to invest for the long term in a prudent manner.

Vermont finds itself at a key moment, when the economics of the industry are clearly structurally declining in the long term - your investing horizon - not the short term. Climate science has never been clearer; impacts of fossil fuels companies on frontline and BIPOC communities are well-known and documented; viable, investable alternatives exist; and other pensions have already broken the ground.

We urge you to support S42 and pass it through the committee. It is critical that Vermont leads in divesting the state's pension funds and protecting the retirement future for all its first responders, teachers and public employees. They are the backbone of our communities and they deserve the very best we can give them. This is a monumental step in what could surely be a shining example for other states and a legacy you can be proud of.

Respectfully,
Amy Gray
Senior Climate Finance Strategist
Stand.earth
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