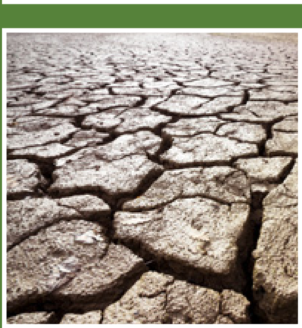


Investing to Curb Climate Change




A Guide for the Individual Investor

US SIF
FOUNDATION
The Forum for Sustainable and Responsible Investment

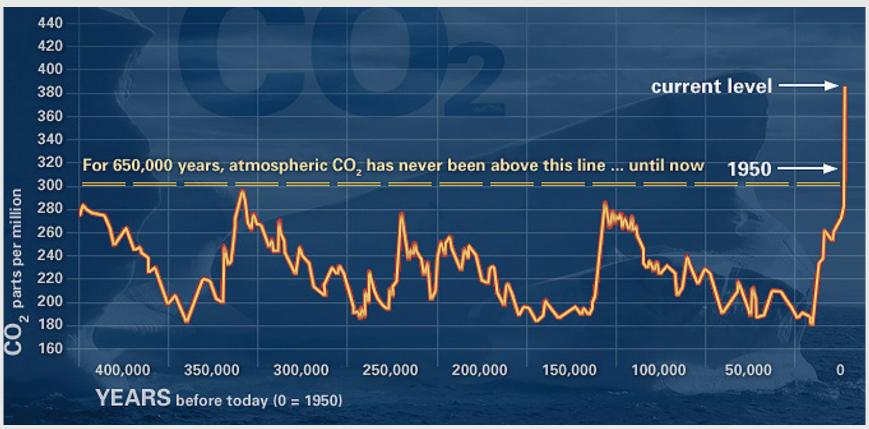
   

The problem

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_2 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.[1]

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.

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.

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

As a retail investor, you may own shares directly (not as part of a mutual fund) in several companies. You are likely to have investments in mutual funds and exchange-traded funds, perhaps as part of an individual retirement account, 401k plan or other type of retirement plan. You also probably have some checking accounts, certificates of deposit or other cash-like investments. Let's look at each of these in turn.

DIRECT OWNERSHIP OF STOCKS

If you directly own shares in companies, you have several options: to buy (invest) in shares of companies whose climate change policies and actions you approve, to sell (divest) shares of companies whose climate change actions and policies you disapprove of, and to use your voice and vote as a shareholder.

Review the companies: A company may report on climate change issues in the annual report and 10K form it sends you. In Section 1A of the 10-K, it will discuss its risk factors and whether it perceives the impact of climate change or regulations to control greenhouse gas emissions to be among those risks. Check the company's website to see if it publishes a corporate responsibility or sustainability report and if so, whether it has set greenhouse gas emission reduction targets and is making progress in meeting them. Another source is the 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.

Make your vote count: At a minimum, if you own shares in a company, you should pay close attention to the shareholder resolutions that are coming to votes at its annual meetings and to be sure to vote your shares. One helpful website on upcoming shareholder resolutions is offered by Green America. 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. 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.

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 $2000 worth of the company's stock for a year as of the date you file the resolution. If you don't meet the $2000 threshold on your own, you can team with other shareholders—or "co-filers"—to meet the minimum.

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

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.

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 the Interfaith Center on Corporate Responsibility.

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 the company knows why you have divested, you should inform the company's investor relations department. Typically, company websites have a tab for "Investors" from which you will find telephone numbers and mailing addresses for investor relations contacts.

Additionally, should you choose to divest, it is critical to reinvest in companies and financial products that help build a clean energy economy. Information on how to reinvest may be accessed on the US SIF website.

MUTUAL FUNDS AND EXCHANGE-TRADED FUNDS

Rather than (or in addition to) owning stocks directly, you may 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 stocks (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 ("for," "against" or "abstain") 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. You should be able to find a general 800 telephone number on the website of your mutual fund company under "Contact Us" or "Open an Account." Mutual fund companies are sensitive to customer opinion, so you should not feel shy about expressing your concerns and suggestions. Remember that the shares you own in mutual funds ostensibly are being voted on the behalf of you and other clients. Moreover, fund companies 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 if you are able to do so. 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 Kapitall Wire.

FINDING PROFESSIONAL INVESTMENT HELP

To put climate change investment strategies into action in a manner that is appropriate for your age, investment objectives, risk tolerance and return expectations, you may want to enlist the assistance of a financial advisor if you don't already. A good place to start is the directory of financial services offered by US SIF members, as they have expertise in sustainable and responsible investing options and strategies. Under "Directory Categories," select "Financial Advisors and Brokers."

Ask your retirement plan to make SRI options available: If your IRA, 401k or retirement plan platform does not offer funds with thoughtful policies on climate change, request your investment advisor or investment committee to make such options available. In a recent survey of retirement plan sponsors, US SIF Foundation found that requests from participants are important in determining whether sustainable and responsible investing (SRI) funds are offered. Among the survey respondents that do offer SRI options, nearly a quarter said they were influenced by participant requests. And of the plan sponsors that did not offer SRI operations, 71 percent said they had never received recommendations or requests to do so. You may wish to share US SIF Foundation's *Resource Guide for Plan Sponsors* with your plan's investment committee.

BANKS, CREDIT UNIONS AND LOAN FUNDS

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 the Interfaith Center on Corporate Responsibility 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.*[2]

An annual coal finance report card, produced by Sierra Club, Rainforest Action Network 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.

You may wish to open accounts in, or purchase certificates of deposits and other cash instruments from banks and credit unions that have a mission of sustainable and responsible investing. Some 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

Additionally, community development loan funds can be part of efforts to address climate change. Though most advisors and fund managers consider CDFI loan funds and other loan funds as part of the fixed income asset allocation, custodians hold them as alternative investments. Most advisors consider these investments restricted to accredited investors, but state filings may or may not contain this restriction, and some loan funds accept investments from non-accredited investors who invest directly.

To find a CDFI loan fund, please visit Opportunity Finance Network.

Microfinance loan funds can also be part of efforts to address climate change. MicroPlace is a brokerage platform that connects retail investors with organizations working on green initiatives, assistance to women and sustainable rural development. These organizations, or issuers, issue interest-bearing short-term notes that investors can purchase for as little as $20. Investors earn a 0.5 to 4.5 percent return on investments, which mature in 3 months to 5 years, and the principal is repaid at maturity.

To learn more about microfinance loan funds, please visit Microplace.

You may also find more information on community investing via our report, *Options & Innovations in Community Investing*.

Your community

In addition to your own investment accounts, you may also have some ability to influence the investment actions of organizations with which you are connected. This 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 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

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

other organizations. The Responsible Endowments Coalition offers resources to alumni interested in encouraging their colleges and universities to adopt sustainable and responsible investment strategies.

Your public policy actions

As an individual investor concerned about climate change, it is important for you to make your voice heard in public policy issues. Let your local, state and federal elected representatives 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 its 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

http://www.epa.gov/climatechange/basics/

http://www.greenamerica.org/programs/climate/facts/index.cfm

http://www.ipcc.ch/

INFORMATION ON INVESTMENT RISKS AND OPPORTUNITIES

http://www.irrcinstitute.org/pdf/irrc_trucost_0906.pdf

http://www.cleanenergyvictorybonds.org/

http://www.ceres.org/files/investor-files/mlp-reit

ABOUT THIS GUIDE

Investing to Curb Climate Change 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. US SIF Foundation thanks the Wallace Global Fund for its support of these guidebooks.




The Forum for Sustainable and Responsible Investment

910 17th Street NW, Suite 1000 • Washington, DC 20006
P +1-202-872-5361 • F +1-202-775-8686
Website: www.ussif.org
Twitter: www.twitter.com/followUSSIF
Facebook: www.facebook.com/followUSSIF

For comments and questions, contact us at info@ussif.org.