FOSSIL FUEL DIVESTMENT

CONSIDERATIONS FOR FOUNDATIONS

CONTENTS

JUNE 2015

AEGN
Australian Environmental Grantmakers Network

AEGN was created to bring together foundations and individual philanthropists who care about the environment and to enable them to become better at what they love doing. AEGN now has almost 100 members and they are a great inspiration to each other – often collaborating on funding initiatives, sharing networks and knowledge, embarking on field trips and attending expert briefings and workshops.

1. IS DIVESTMENT RIGHT FOR YOUR FOUNDATION?

In recent times, foundations have become increasingly conscious of the reputation and financial risks associated with investment in sensitive or contentious areas. In this paper, we discuss one such area – sectors and companies that derive all or most of their revenues from fossil fuels. Divestment from these areas is a serious decision for any organisation, because in the short term there are costs, resourcing and quality time needed for consultation, planning and implementation. Divestment also requires leadership and commitment at the highest levels of the foundation, which can put extra strain on small organisations. However, if well done, divestment is also one of the most powerful and easily understood communiqués in relation to climate change. If the transition is well managed, the fund's risk return profile should benefit as well. There are important questions that foundations can ask in their early stages of considering divestment that are covered in Section 7 of this document.

2. WHAT IS THE ARGUMENT FOR DIVESTMENT?

2^0C IS THE UPPER LIMIT – BUT WE HAVE THREE TIMES AS MUCH IN RESERVES

Analyses undertaken by a multitude of organisations – over time and across the world – has shown that only one third of known and exploitable fossil fuel reserves can be burned if temperatures are to be kept below the 2^0C safety limit committed to by world governments at the U.N. climate change meeting in Cancun, Mexico in 2010 (COP 16).[1] This figure includes oil, gas and coal combined, however when considering coal on its own, the figure drops from one third to only 18% globally. For Australian coal, estimates are that only 12% of known reserves may ever be exploited in a 2^0C scenario.[2]

This consensus on an upper safe limit of 2^0C is called the Cancun Agreement and is the basis upon which governments have been asked to pledge their carbon emission reductions ahead of the critical U.N. climate change meeting in Paris in December this year (COP 21).

WHY IS THE CANCUN AGREEMENT CRITICAL FOR INVESTORS?

The term 'known and exploitable' fossil fuel reserves refers to the proven coal, oil and gas reserves held on the balance sheets of fossil fuel companies (and governments in some cases). The expected future earnings from these reserves are factored into the current stock price and financial valuation of fossil fuel companies (see Appendix 2 for a classification of 'fossil fuel companies'). If governments are successful in limiting global warming to 2^0C via regulation, pricing and incentives, most of these fossil fuel reserves will never be exploited and company valuations will be unrealised.

STRANDED ASSETS

This is where the term "stranded assets" comes from. Stranded assets are fossil fuel energy and generation resources which, at some time prior to the end of their economic life, are no longer able to earn sufficient economic return because of regulatory and pricing changes associated with the transition to a low-carbon economy.[3]

A new report released by Carbon Tracker on 8 June 2015 highlights one example, "On a market capitalization basis, the EU's largest 5 power generators collectively lost over 100 billion euros (or 37% of their value) from 2008 to 2013. In contrast, Germany's stock market increased 18% over the same period. Renewable energy technology, environmental and air quality concerns, and evolving customer needs are transforming the production and consumption of electricity."[4]

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1 *World Energy Outlook 2014*, International Energy Agency
2 C. McGlade, P. Ekins, June 2015, Geographical sdstribution of fossil duels unused when limiting global warming to 2^0C, *Nature*
3 Carbon Tracker website – definitions

3. WHERE DID DIVESTMENT BEGIN?

In July 2012 Bill McKibbon, founder of 350.org, wrote an article in Rolling Stone magazine which gave rise to the fossil fuel divestment movement, the largest of its kind since the successful campaign in the 1980s that contributed to the end of apartheid in South Africa.

The lengthy essay is a despairing chronicle of failed attempts to curb climate change, however it ends with a valiant call to arms to university campuses, *"If their college's endowment portfolio has fossil fuel stock, then their educations are being subsidised by investments that guarantee they won't have much of a planet on which to make use of their degree. The same logic applies to the world's largest investors – pension funds – which are also theoretically interested in the future – that's when their members will "enjoy their retirement.""*

The movement has since spread from college campuses in the United States to local councils, cities, religious and health institutions, foundations and pension funds across the world. By May 2015, over US$50bn in fossil fuel company stocks had been divested by over 200 organisations. Divesting organisations include[5]:

- 32 universities (including 2 in Australia)
- 42 cities and counties (6 in Australia)
- 77 religious institutions (10 in Australia)
- 73 trusts and foundations (10 in Australia)
- 25 other institutions (3 in Australia)
- Plus 4 Australian superannuation funds with full or partial divestment

4. RECENTLY IN THE NEWS

Four Corners, 15 June 2015
Valerie Rockefeller Wayne, Chair, Rockefeller Brothers Fund, "With fossil fuels, we want to get out as quickly as possible, as fast as is prudent…the value of coal stock in the United States has gone down 60-90%. This is a global phenomenon…if you look over the last five years, the S&P 500 has gone up by 76% and the value of coal stocks has gone down by 71%, according to the historical indices of the leading coal companies. So you've lost a lot of money if you've been in coal. To put more money into something that you know is damaging the environment is not just denying science, it's denying the data. But there are coal interests out there who have allies in the current Australian government, I would say there's been a lot of denial at the federal level."

The Guardian, 5 June 2015
"The world's largest sovereign wealth fund, Norway's Government Pension Fund Global, which was founded on the nation's oil and gas wealth, revealed today that a total of 114 companies had been divested from their portfolio based on the risk they face from regulatory action on climate change. The fund is worth US$850bn and is one of the top ten investors in the global coal industry.The divestment is based on companies with 30% or more of their revenues dependent on coal."

The Guardian, 25 May 2015
"France's largest insurer, AXA, will scrap holdings in coal companies because of concerns about climate change, broadening support for the fossil-fuel divestment movement to a major mainstream investor. AXA Chief Executive Officer Henri de Castries said he's working to sell 500 million euros of coal assets and triple "green investments" to 3 billion euros by 2020."

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[5] *Go Fossil Free* website: http://gofossilfree.org/commitments/

The Guardian, 9 June 2015
The G7 leading industrial nations have agreed to cut greenhouse gases by phasing out the use of fossil fuels by the end of the century, the German chancellor, Angela Merkel, has announced, in a move hailed as historic by some environmental campaigners. In a 17-page communiqué, the G7 leaders also agreed to back the recommendations of the IPCC, the United Nations' climate change panel, to reduce global greenhouse gas emissions at the upper end of a range of 40% to 70% by 2050, using 2010 as the baseline.

Australian Financial Review, Vanessa Desloires, 4 June 2015
"A new report released by Mercer called *Investing in a Time of Climate Change*, says that investors must change their behaviour and factor climate change into their risk modeling to protect their returns. The report estimated the potential impact of increases of 2, 3 and 4 degrees above pre-industrial global temperatures on returns for portfolios, asset classes and industry sectors between 2015 and 2050. The biggest differentiation was at industry level, and of the biggest losers, it found the average annual returns from the coal sub-sector could fall 18 to 74 per cent during the next 35 years. Conversely, renewables would deliver an increase in returns of 6 to 54 per cent."

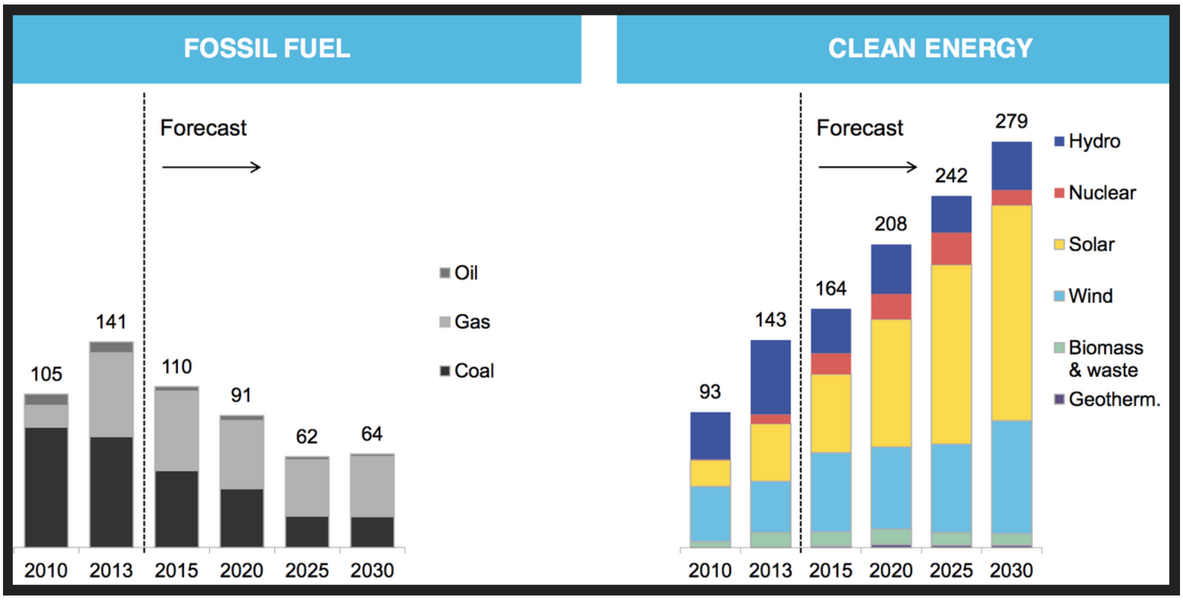
5. THE RISE OF RENEWABLES

Regulatory pressure on the fossil fuel industry is compounded by energy market changes such as growing energy efficiency, serious urban pollution problems and stiff competition from renewables.

The cost of renewable energy has dropped steeply in recent years, resulting in increases in new investments and additions to renewable energy capacity, illustrated in the following diagrams.

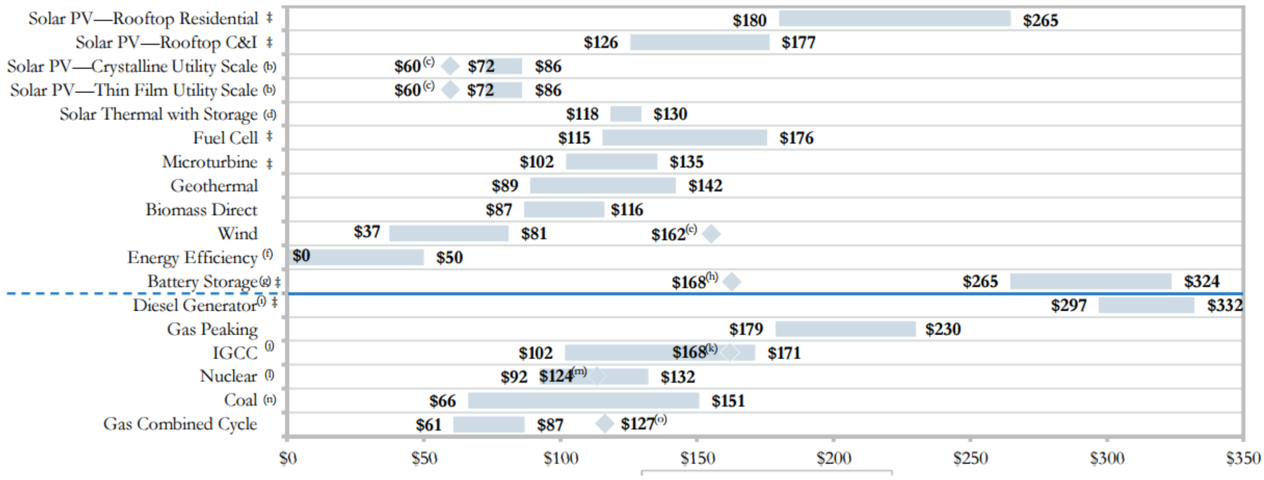
POWER GENERATION CAPACITY ADDITIONS (GW) WORLDWIDE

"The race for renewable energy has passed a turning point. The world is now adding more capacity for renewable power each year than coal, natural gas, and oil combined. And there's no going back."
Bloomberg Business, 15 April 2015



Power generation capacity additions (GW) worldwide
Source: Bloomberg New Energy Finance, April 2015

LEVELISED COST OF ENERGY $/MWh



Source: September 2014, Lazard, Levelised Cost of Energy Version 8.0

6. WHY DOES THIS MATTER FOR FOUNDATIONS?

The U.S. based Wallace Global Foundation established *Divest-Invest Philanthropy* in 2014, which is a web-based platform designed to help foundations collaborate and support each other in their journey to divest from fossil fuels and invest more in the advanced energy economy.

The Commitment Letter provides an elegant explanation as to why this is important for many foundations. Below is an excerpt from the Letter, and the full version can be found in Appendix 3.

Dear Philanthropic Community,

The escalating climate crisis will impact the programs of all philanthropic institutions, not just those focused on environment and health. While all of philanthropy must consider how climate change will affect our respective missions, we believe grant-making alone will be inadequate to meet the challenge. With this in mind, the undersigned foundations have come together in a new initiative to divest our assets from fossil fuels and to invest in climate solutions and the new energy economy. We invite you to join us.

Divest-Invest Philanthropy seeks to reinforce the growing divestment movement in colleges, cities, states, pension funds, and religious institutions. Drawing on a core innovation of anti-Apartheid activism, today's movement argues that mission-based institutions whose goals and constituencies are threatened by the extraction and combustion of fossil fuels should not also seek to profit from them. It exposes the fossil fuel industry's efforts to block progress to a clean, renewable energy future, and argues for new investments that will advance climate solutions rather than drive the crisis.

Philanthropy has an opportunity to put its full weight behind this new movement and lead in efforts to address climate change. In the broadest sense, this means using all our assets to advance our goals, values, and beliefs. At a minimum, it means ensuring our investments do not drive the problems we ask our grantees to solve. Investments cannot undercut the philanthropic mission—serving the public good. In the final analysis, this is our primary fiduciary obligation.

7. WHAT DO FOUNDATIONS NEED TO CONSIDER?

The following questions offer a governance-based framework to approach decision-making around divestment. The purpose of this process is for the board and management to be able to consider and articulate any decision around fossil fuel divestment in relation to other sensitive or contentious issues that may impact investment portfolios, both now and in the future. Once these strategic decisions have been evaluated, a specific fossil fuel divestment policy and plan can be tailored to the needs of the foundation.

KEY QUESTIONS ABOUT OUR INVESTMENT PORTFOLIO

- Do we have clear statements regarding our environmental, social and governance (ESG) beliefs as they relate to our investments?
- Are they reflected in our investment policies?
- How does this change our investment processes and decision-making?
- At a practical level, how is this reflected in our investment portfolio?

ONCE THESE FOUNDATIONS ARE ESTABLISHED, MORE SPECIFIC QUESTIONS CAN BE EXPLORED

- What are the most sensitive ESG investment topics for our organisation?
- Do we have a robust process for working through each sensitive topic, focusing on investment risk, returns and our reputation?
- Are we sufficiently informed of the potential responses and actions to a range of ESG issues?

NEXT STEPS – DEVELOPING A SHARED DIALOGUE AROUND FOSSIL FUEL DIVESTMENT

The following questions may help to establish a process for considering fossil fuel divestment, as well as laying the foundations to consider other contentious investment issues that may arise in the future.

Beliefs:

- What are our beliefs around fossil fuel divestment?
- What is the evidence that this is a significant issue for us?
- Where is the evidence that this is material to investment risk and return and our reputation?
- How do we rate the future returns outlook of this issue, supported by the evidence?

Risk and Return

- How will fossil fuel divestment impact our risk management strategy?
- What impact will there be on our investment returns?
- What effect will there be on our objectives and mission?

Reputation

- What do our beneficiaries expect of us?
- What do our stakeholders expect of us?
- What are our peers doing?
- What is the public profile of this issue?

Next steps

- Are we agreed on an action plan, timeline and next steps for implementation?

APPENDIX 1: WHO HAS DIVESTED?

1. DIVEST-INVEST PHILANTHROPY

* The following foundations have signed to the Invest-Divest Philanthropy Commitment Letter (Appendix 3) and are mostly US based. Those in red are Australian.

Aria Foundation
Ben & Jerry's Foundation
Betsy and Jesse Fink Foundation
Rewegungs Stiftung
The Educational Foundation of America
English Family Foundation
Edwards Mother Earth Foundation
Fondation Charles Leopold Mayer
Forsythia
Frederick Mulder Foundation
Garfield Foundation
General Service Foundation
The Goldman Environmental Prize
Greame Wood Foundation
Hunt Foundation
Center for Rural Affairs Granary Foundation
Hanley Foundation
Hidden Leaf Foundation
Janelia Foundation
Jessie Smith Noyes Foundation
Jim and Patty Rouse Foundation
John & Marcia Goldman Foundation
The John Merck Fund
The Joseph Rowntree

Blumenthal Foundation
Bullitt Foundation
Chino Cienga Foundation
Chorus Foundation
CharitableTrust
Jubitz Family Foundation
KL Felicitas Foundation
Laird Norton Family Foundation
The Jacob and Valeria Langeloth Foundation
Lookout Foundation
Lydia B. Stokes Foundation
Madden Sainsbury Foundation
Madirriny Foundation
McKinnon Family Foundation
Merck Family Fund
Meyer Family Enterprises
Mize Family Foundation
Mullum Trust
New England Biolabs Foundation
Nia Community Fund
North Star Fund
The Pace Foundation
The Palette Fund
Park Foundation
PI Investments
Prentice Foundation

Polden Puckham Foundation
Christensen Family Foundation
Compton Foundation
Earth Welfare Foundation
Robert & Patricia Switzer Foundation
Robert Treat Paine Association
Rockefeller Brothers Fund
Ross Knowles Foundation
Rubblestone Foundation
The Russell Family Foundation
Samuel Rubin Foundation
Schmidt Family Foundation
Shared Earth Foundation
Shugar Magic Foundation
The Sierra Club Foundation
Singing Field Foundation
Solidago Foundation
SWF Immersion Foundation
Tellus Mater
Threshold Foundation
Trust Africa
V. Kann Rasmussen Foundation
Wallace Global Fund
Winslow Foundation

2. AUSTRALIAN ORGANISATIONS THAT HAVE DIVESTED

UNIVERSITIES
Australian National University – partial
Sydney University – partial

FOUNDATIONS
Ross Knowles Foundation
Madden Sainsbury Foundation
Earth Welfare
English Family Foundation
Graeme Wood Foundation
Madirriny Foundation
McKinnon Family Foundation
Hunt Foundation
Pace Foundation
Mullum Trust

CHURCHES
Uniting Church NSW & ACT
Melbourne Unitarian Church
Anglican Diocese of Perth
Anglican Diocese of Canberra & Goulbourn
Anglican Diocese of Melbourne
Anglican National Super
Uniting Church in Australia National Assembly
Quakers Religious Society of Friends
Earthsong
Presentation Sisters

COUNCILS
City of Moreland
City of Fremantle
Marrickville
Goomalling
Leichardt
Lismore

SUPER FUNDS
Future Super - 100% fossil free
Australian Ethical Super - excludes most fossil fuels except for some gas investments
UniSuper – divested their socially responsible investment option in 2014
Local Government Super - divested thermal coal from all their portfolios in 2014

OTHER
Royal Australian College of Physicians
Doctors for the Environment Australia
Screen Composers Guild

APPENDIX 2: THE COMPANIES

Source: 350.org and Market Forces, Superswitch - www.superswitch.org.au

TIER 1:

Companies that derive all or most of their revenue from fossil fuel extraction, transport or generation. Our view of Tier 1 companies is that they are contrary to an economy aiming to rapidly decarbonise and should be considered candidates for divestment.

1. American Electric Power
2. Anadarko Petroleum
3. Anton Oilfield Services
4. APA Group
5. Apache
6. AWE
7. Baker Hughes
8. Bangkok Bank
9. Beach Energy
10. BG Group
11. BP plc
12. Cabot Oil & Gas Corp
13. Caltex Australia
14. Canadian Natural Resources
15. Canadian Oil Sands
16. Cenovus Energy
17. Centrica PLC
18. Cheniere Energy
19. Chesapeake Energy
20. Chevron
21. China Oilfield Services
22. Clean Energy Fuels
23. CLP Holdings
24. CNOOC
25. Concho Resources
26. ConocoPhillips
27. Cooper Energy
28. DBNGP Financial
29. Devon Energy Corp
30. Diamond Offshore Drilling
31. Dragon Oil
32. Drillsearch
33. Duet Group
34. Eni
35. ENN Energy Holdings
36. Envestra
37. EOG Resources
38. ERM Power
39. Exxon Mobil
40. Gas Natural
41. Gazprom
42. GDF Suez
43. General Electric
44. Helmerich & Payne
45. Hess Corporation
46. Horizon Oil
47. Imperial Oil
48. Industries Qatar
49. Inpex
50. Karoon Gas
51. Lukoil
52. Lundin Petroleum
53. Marathon Oil
54. Marathon Petroleum
55. Murphy Oil
56. National Grid
57. National Oilwell
58. Noble Corporation
59. Noble Energy
60. Northwest Natural Gas
61. Occidental Petroleum
62. Oil Search
63. Oil States International
64. Origin Energy
65. Osaka Gas Co
66. Petrobras
67. PetroChina
68. Petrofac
69. Petroleum Geo Services
70. Petronas Gas Berhad
71. Phillips 66
72. Pioneer Natural Resources
73. PTT Exploration and Prod'n
74. Range Resources
75. Red Fork
76. Roc Oil
77. Royal Dutch Shell
78. Santos
79. Schlumberger
80. Seadrill
81. Senex Energy
82. Shougang Fushan Resources
83. Sino Gas & Energy Holdings
84. Sinopec
85. Southwestern Energy
86. Spectra Energy
87. Statoil ASA
88. Suncor Energy
89. Sundance Energy Australia
90. Thai Oil
91. Tokyo Gas Company
92. Total SA
93. TownGas China
94. Tullow Oil
95. Weatherford
96. Whitehaven Coal
97. Woodside Petroleum

TIER 2:

Companies with large fossil fuel reserves but a smaller proportion of their revenue is sourced from fossil fuel extraction, transport or generation. Typically these are large, diversified miners or companies that are partially involved in the extraction, transport and combustion of fossil fuels. Our view is that these companies are playing a key role in developing new fossil fuel reserves that are a threat to the climate and should be considered candidates for divestment. However, they are distinguished in Tier 2 because of their potential to eliminate the fossil fuel component of their business and carry on contributing to a low-carbon economy.

1. AGL Energy
2. Alcoa
3. Anglo American
4. AP Moeller-Maersk
5. Ausnet Services
6. BASF
7. Berkshire Hathaway
8. BHP Billiton
9. CenterPoint Energy
10. China Longyuan Power Group
11. China Resources
12. Contact Energy
13. DTE Energy
14. Duke Energy
15. E.ON
16. El Paso Pipeline Partners LP
17. FirstEnergy
18. Glencore
19. Korea Electric Power
20. Marubeni Corporation
21. Mitsubishi
22. Neste Oil Oyj
23. New Jersey Resources Corp
24. Nippon Steel & Sumitomo Metals
25. NiSource
26. Noble Group
27. POSCO
28. Power Assets Holdings
29. Rio Tinto
30. Samsung
31. Sempra Energy
32. Syrah Resources
33. Teck Resources
34. Vale
35. Valero Energy Corp
36. Wesfarmers
37. Xcel Energy

APPENDIX 3:
DIVEST-INVEST PHILANTHROPY COMMITMENT LETTER

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The escalating climate crisis will impact the programs of all philanthropic institutions, not just those focused on environment and health. While all of philanthropy must consider how climate change will affect our respective missions, we believe grant-making alone will be inadequate to meet the challenge. With this in mind, the undersigned foundations have come together in a new initiative to divest our assets from fossil fuels and to invest in climate solutions and the new energy economy. We invite you to join us.

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Philanthropy has an opportunity to put its full weight behind this new movement and lead in efforts to address climate change. In the broadest sense, this means using all our assets to advance our goals, values, and beliefs. At a minimum, it means ensuring our investments do not drive the problems we ask our grantees to solve. Investments cannot undercut the philanthropic mission—serving the public good. In the final analysis, this is our primary fiduciary obligation.

While moral accountability alone compels us to act, the financial case to divest and reinvest is no less compelling. There is growing recognition that if we hope to maintain a livable climate, the majority of fossil fuel reserves now on the world's books will become stranded, unusable assets. The UN Intergovernmental Panel on Climate Change establishes the compelling science. Fossil-fuel stocks, whose valuations are linked to reserves, are thus vastly over-valued, with conservative estimates pointing to a multi-trillion dollar "Carbon Bubble," many times the recent $2 trillion housing bust. Failure to deflate this bubble in oil, gas, and coal investments now, risks profound economic consequences later. A growing body of financial analysis—from Price Waterhouse Cooper, Carbon Tracker, the London School of Economics, Lord Nicholas Stern, The Grantham Institute, HSBC, the *Financial Times*, and *The Economist*—has issued similar warnings.

Prudent investors seeking to avoid future losses will act now. Studies show negligible-to-no near-term risk in divesting from fossil fuels, coupled with a growing range of opportunities to build assets by investing in vehicles with low-carbon impacts. There is a wide range of profitable investment products available across all asset classes for renewables, clean tech, and energy efficiency. We have a unique opportunity to model how investments can be used to solve social problems, while delivering solid returns. Let's demand the same clear vision for catalytic change from our investment professionals as we do from our grantees.

We come together as a group of foundations with assets totaling close to $2 billion USD. While we have diverse missions, we are united by a common recognition that we must put all our tools into service, without delay. Each of us is at different stages of meeting this commitment. Some are fully divested from fossil fuels, while others are targeting specific classes of investments along a trajectory toward complete divestment. Some are pioneers in impact investing and others are just beginning.

Divest-Invest Philanthropy unites the power and credibility of the philanthropic community to respond to the global climate crisis and support innovative and sustainable energy alternatives. Our fiduciary duty compels us to take full account of the financial and social impacts of our investments. Business as usual is no longer an acceptable practice. For ethical and financial reasons, we therefore commit to divest from the major fossil fuel companies — retaining minor positions for shareholder advocacy — and to invest instead in climate solutions and a sustainable future economy.

We invite you to begin with the following steps:

1. ASSESS: Conduct an assessment of your exposure to climate change risk, defining the degree to which you are invested in fossil fuels versus climate solutions and investments that support your mission.
2. CONSULT: Launch a dialogue among Board and Staff on investment strategies that align investments with mission and support a sustainable and just economy.
3. COMMIT: Commit to a timetable and process, commensurate with the pace of climate change, for eliminating all fossil fuels from your investment portfolios while investing in a new, clean energy economy through renewables, clean tech and other innovations.

Together, we can form a community of practice, learning from each other's efforts, sharing strategies, and scaling innovation. Most significantly, we are taking action on one of the most significant challenges humankind has ever faced.

JUNE 2015