

Investment Perspectives

Climate Change & The Institutional Investor

Introduction

Awareness of sustainable investing among institutional investors and their constituents has steadily increased over the last decade. However, recent events have intensified conversations among investment committees, staff, donors, trustees, and other stakeholders. Climate-related headlines, the mobilization of climate activists and environmentalists, and weakness in traditional energy markets drive much of the noise around the topic.

Five of the warmest years on record occurred in the last decade. Meanwhile, 2019 marked the fifth consecutive year in which there were 10 or more weather-related disasters with damages exceeding \$1 billion in the United States¹. The country has averaged 14.6 such disasters over the last three years—more than double the historical average.

Further, activist movements have extended beyond college campuses and special interest groups to corporate board rooms and Wall Street. Globally, more than \$30 trillion was dedicated to sustainable investing at the beginning of 2018². Roughly 2,300 organizations, overseeing \$80 trillion in assets, have now signed on to the UN Principles for Responsible Investment (PRI)³.

While the debates about the causes of and solutions to climate change continue, one thing is certain: assets are moving in response to these events and investors are paying attention.

Sampling of Key Climate Events since Jan. 2019



[Click here](#) to view a sample list of university endowment announcements/actions.

Against this backdrop, we sense an increasing urgency among many clients to act. However, many have found it difficult to navigate the varying implementation options, rapid changes in

innovation, and the ever-expanding universe of environmental, social, governance (ESG) and socially responsible (SRI) investment products.

We have shared our expertise to help clients address a variety of considerations in mission alignment, including diversity, inequality, human health, and values based investing. The predominant issue, however, has been developing an approach to the risks and opportunities associated with climate change.

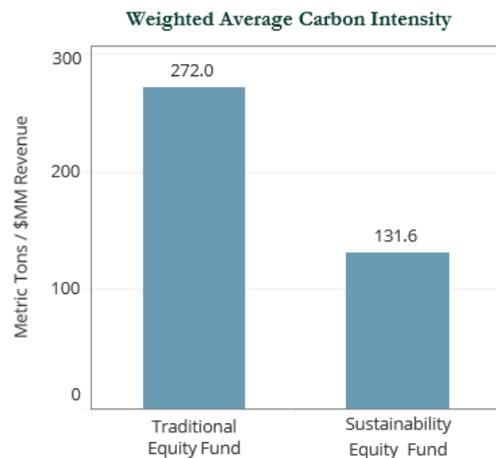
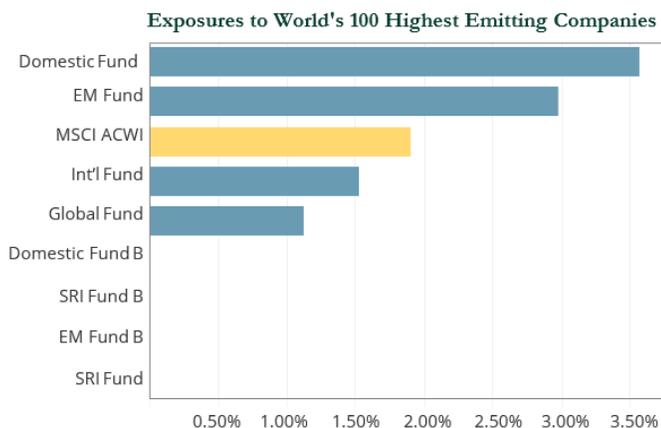
This Investment Perspective details developments within sustainable investing, shares solutions currently being implemented by clients, and outlines ways to address climate change in portfolios.

Implementation Options

1. Know What You Own

Portfolio exposure reports provide a detailed view of the current state of your investments and can be customized to screen for a variety of issues, including exposures to weapons producers, tobacco, opioids, etc. Among our clients, fossil fuel, carbon intensity and emissions exposure are the most prevalent screens. Over the course of 2019, client requests for screens doubled. Of the requested screens 80% related to climate change.

The chart below is an example of an exposure report available to all clients. To view further examples of reporting, [click here](#).



When the priority is to avoid certain types of exposure, measuring the extent of that exposure is an important first step. Clients have sought exposure details beyond fossil fuel reserves, including transportation and utilities companies that emit the most carbon, financial companies that finance oil and gas companies, REITs with exposure to properties in environmentally fragile areas, or insurance companies with liabilities tied to natural disasters.

2. Bring Everyone to the Table

Based on our experience, the best solutions capitalize on the diversity of thought among constituents. While challenging, conversations that engage multiple levels of stakeholders create a shared understanding of, and responsibility for, outcomes.

Over the past several years, we have facilitated dozens of conversations on the issues surrounding climate change. Whether engaging donors, staff, boards, committees, students, or community members, we believe it is important to create room for differing opinions while seeking commonality in the commitment to the organization and its best interests.

We recently facilitated a discussion with a university client that included the CFO, development officer, faculty sustainability head, student council

president, and student divestment coordinator—a mixture that represented a broad spectrum of backgrounds and interests. By listening to individual viewpoints and sharing our experiences, the client was able to bring the conversation to the investment committee and board and secure a mandate to explore sustainability in the investment portfolio.

3. Find Like-Minded Partners

There are a number of organizations that focus on educating and mobilizing organizations around ESG considerations. Over the years, we have partnered with organizations such as the Intentional Endowments Network, Ceres, and Mission Investors Exchange. Specific to climate change, Climate Action 100+ is an investor initiative that engages the world's largest corporate greenhouse gas emitters to take action on climate change. More than 450 investors, representing over \$40 trillion in assets, have joined the initiative.



Recently, a few Prime Buchholz clients have become UN PRI signatories, a group of more than 2,300 asset owners and service providers that have formally committed to creating a more sustainable global financial system. As a signatory since 2015, we worked hand-in-hand with these clients each step of the way—from outlining signatory responsibilities and facilitating conversations about potential benefits to crafting specific responses for the annual reporting tool and leading broader discussions about ways to implement the UN PRI Sustainable Development Goals.

4. Align Your Portfolio

Several investment managers we recommend to clients are able to customize their products to remove exposure to specific industries. Other managers, such as Generation Investment Management, integrate sustainability analysis into their decision making and offer both compelling long-term track records and strong sustainable mandates.

Just as each client portfolio is customized to its unique circumstances, we believe mission-alignment should be similarly bespoke. There are a variety of factors that help determine how to address alignment. We have seen an array of solutions, but some of the most common include:

- Create standalone ESG portfolios for donors.
- Start monitoring exposures to areas of concern and shift portfolios incrementally and opportunistically.
- Invest in best-in-class managers that believe consideration of ESG issues is a necessary risk management tool.
- Fund environmental solutions in both private and public markets.

One private community foundation client sought to dedicate its entire portfolio to impact investments and remove all exposure to fossil fuels. Through proactive quarterly screening and a commitment to incremental progress, the portfolio went from holding 11% of assets in impact funds to 90% and achieved its goal of removing all exposure to companies on the *Carbon Underground 200* (fossil fuel) and *Filthy 15* (coal).



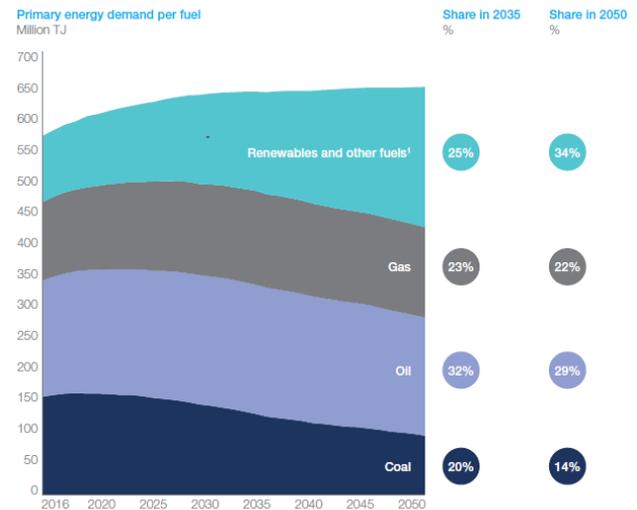
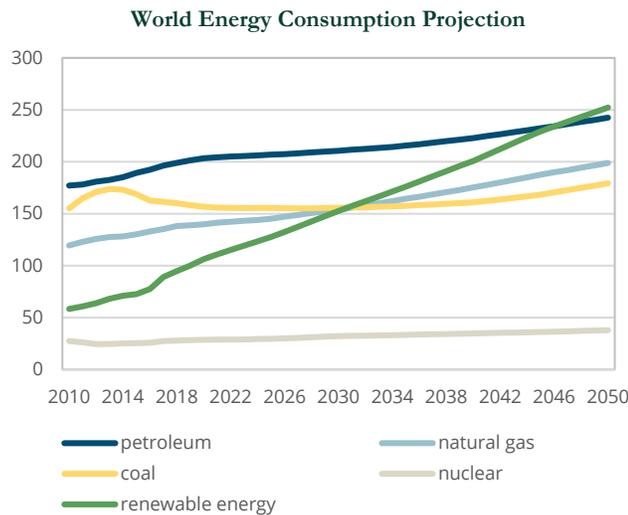
5. Agree on an Action Plan, and Act

With so many resources and investment options available, it is important to craft a dynamic action plan that is comprehensive yet achievable. We engage clients early and often, from crafting IPS language to implementing a diversified portfolio designed to address multiple mission-related mandates.

One of our university clients took a holistic approach to sustainability, including identifying opportunities for more sustainable practices across campus. The university's pursuit of the Association for the Advancement of Sustainability in Higher Education Sustainability Tracking, Assessment & Rating System platinum rating created a commonality in purpose. Sustainable investment initiatives are developed and brought forward by the university's Committee on Investor Responsibility to the investment committee and board to ensure continued innovation and progress.

The Energy Transition Opportunity

Forecasts of future energy supply and demand vary widely, but two projections are generally consistent: (i) the world's energy use will increase over time and (ii) the greatest area of growth will be renewables.



Source: Global Energy Perspective 2019, McKinsey

Many renewables are now cost-competitive on an unsubsidized basis and rapid improvements in battery technology and natural gas assets are helping solve the challenges of intermittent production. Lower costs, combined with a growing set of government mandates/goals, have led to greater renewable deployment. Corporate users now have the option to select both the cleanest and often cheapest power source. The renewables opportunity spans both public and private markets.

Public Market Opportunities

- Growing universe of pure-play public renewable companies.
- Increasing number of renewable portfolios within non-pure-play companies such as utilities, integrators, and infrastructure.

Private Market Opportunities

- Growing universe of pure-play renewable strategies.
- Greater allocation to renewables by power/energy infrastructure funds (not pure-plays as they also invest in natural gas/thermal).
- Increasing focus on renewable investments by diversified infrastructure funds.

How We Can Help

Throughout our history, Prime Buchholz has partnered with clients who have sought to align their investments with their missions. Our long history of customization to meet the diverse needs of our clients makes us uniquely positioned to be a key asset for investors seeking to address climate change through their portfolios or simply develop portfolios that seek to avoid related risks and take advantage of potential opportunities. With a client base comprised of approximately 90% nonprofit organizations, we are thoroughly engaged in the conversation regarding how to best address the risks and opportunities associated with climate change.

Please reach out to your client service team if we can help direct discussion and action on climate change or any other considerations as it pertains to mission-alignment. We pride ourselves on being a knowledgeable, effective partner that helps organizations turn their visions—and their missions—into realities.

Learn More:

Prime Buchholz will be hosting an open conference call to clients seeking to listen and exchange ideas on addressing climate change in their portfolios. If you are interested in joining, please reach out to your client service team for details.

¹ NOAA National Centers for Environmental Information, [ncdc.noaa.gov](https://www.ncdc.noaa.gov)

² Global Sustainable Investment Alliance, 2018 Global Sustainable Investment Review

³ UN Principles for Responsible Investment, unpri.org

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