A Toolkit for Foundations and Individual Investors: *Harnessing Your Investments to Help Solve the Climate Crisis*

Prepared by

Ceres

Investor Network on CLIMATE RISK

Environmental Grantmakers Association

On February 14, 2008, financial leaders representing $22 trillion in assets gathered at the United Nations for the third Investor Summit on Climate Risk, co-hosted by Ceres and the United Nations Foundation; the event was co-convened by nineteen foundation presidents (see last page for list of foundations).

Climate change presents enormous risks and opportunities for investors. Climate risk is now embedded in all investment portfolios as companies worldwide face far-reaching competitive risks from emerging climate regulations, threats of litigation from climate inaction and physical hazards from extreme weather events, rising sea levels, wildfires and water shortages. But where there are risks, there are also opportunities. The next 50 years will require a massive shift to cleaner energy sources and technologies to avoid unmanageable climate disruption. Investing in these low-carbon sectors is likely to bring enormous rewards.

Given that climate risks and opportunities are embedded in all asset classes – including equities, fixed income, real estate and alternative investments – there is a growing demand among foundation endowments and individual investors for actions they can take to respond to climate change. This document provides a brief overview of available steps.

Foundation strategies for advancing climate change solutions

Foundations can harness their investor power to:

1. **Press companies** to improve their climate change strategies
2. **Engage with Wall Street** investment managers to incorporate climate change into investment research and decision making
3. Join other institutional investors in **supporting policy solutions and SEC regulatory actions**
4. Invest in **clean technologies** and **energy efficiency**
5. Coordinate with other investors to **address climate risk**

1. Press companies to improve their climate change practices

All investors, including foundations and individuals, can use various forms of communication and dialogue to catalyze improved climate action from the companies in which they invest. One of the most effective means of improving corporate performance is by supporting and/or filing climate change shareholder resolutions.

In the 2007–2008 proxy season, for example, the Nathan Cummings Foundation – in cooperation with numerous large pension funds – filed a shareholder resolution with Centex, the nation's third largest homebuilder, encouraging the company to outline its strategies for reducing energy usage and the overall carbon footprint of its homes. The resolution received 26% of shareholders' support – impressively high, given that many shares are controlled by the company or held by mutual funds that reflexively vote against such resolutions. The company responded by committing to improve the energy efficiency of all its new homes by 30–40%, beginning in 2009.

Working together, investors can achieve more than they can in isolation. By joining forces to encourage companies to cut greenhouse gas emissions in their operations, supply chains, and products, Ceres' investor partners have won significant climate commitments since 2004 from more than 80 companies in key sectors (see figure 1).

***Figure 1:* Investors, including foundations, have acheived significant climate commitments from companies as follows:**

Electric power sector	Allegheny Energy, Alliant Energy, Ameren, American Electric Power, Arizona Public Service, Consolidated Edison, Domini Resources, DTE Energy, Duke Energy/Cinergy, Dynegy, Exelon, FirstEnergy, FPL, Great Plains Energy, MGE Energy, National Grid Group, PG&E, PPL, Progress Energy, PSEG, Sempra, TXU, WPS Resource
Auto sector	Ford Motor Company, General Motors, Nissan
Oil and gas sector	Anadarko, Apache, BP America, Chevron, ConocoPhillips, Devon, El Paso, EOS Resources, Marathon, Tesoro, Valero, Williams, XTO
Building and retail sector	Best-Buy, Big Lots, Centex, Costco, D.R. Horton, Home Depot, KB Homes, Liberty Property Trust, Lowe's, Parkway, Rite Aid, Simon Property Group, Staples, Starwood, Toll Brothers
Financial services/ insurance sector	Allianz SE, Bank of America, Chubb, Citigroup, Goldman Sachs, Hartford, JP Morgan Chase, Marsh & McLennan, Merrill Lynch, Prudential, St. Paul Travelers, State Street Corp., TIAA-CREF, Wells Fargo
Other	Alcoa, Bemis, Continental Airlines, Dell, DuPont, Harley Davidson, Green Mountain Power, Green Mountain Coffee, Ryder Systems, Sun Microsystems, Timberland, Teradyne

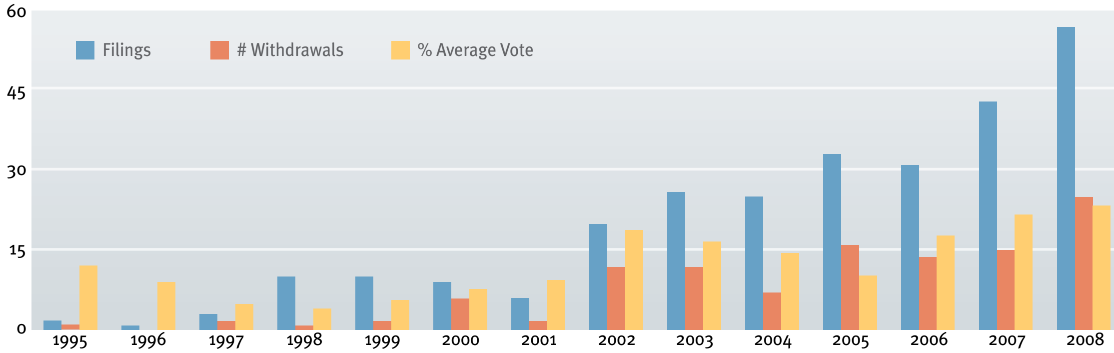
Most of the investors who have achieved these results are members of the Investor Network on Climate Risk (INCR), which is a project of Ceres. INCR began in 2003 and has since grown to include more than 70 institutional investors with more than $7 trillion in collective assets, including the nation's largest public pension funds, state and city treasurers and comptrollers, labor funds, religious investors, socially responsible investment firms and many foundations.

As more investors, including foundations and individuals, continue to join the effort, the number of climate-related resolutions filed by investors has increased each year – from 30 in 2005–06, to 45 in 2006–07, to 61 resolutions in 2007–08. The filing of these resolutions is coordinated by Ceres and the Interfaith Center on Corporate Responsibility (ICCR), who brings religious investors into the effort.

In 2006–07, a record 15 resolutions were withdrawn by investors due to positive company actions. More than two-dozen such withdrawals occurred in the 2008 proxy season.

At the same time, voting results for resolutions have increased dramatically while resolutions have simultaneously requested stronger action from companies. When Ceres and ICCR first began coordinating these resolutions in 1998, votes were typically in the single digits and resolutions called simply for disclosure of climate risks. This year, average voting support was 23.5%, with some votes exceeding 39%, and many resolutions called for setting and reaching ambitious greenhouse gas reduction goals.

U.S. Shareholder Resolutions on Climate Change 1995–2008



Specific Action Steps

- ***Adopt proxy voting guidelines.*** The first step toward engaging companies on climate change is to set proxy voting guidelines for your endowment or investment portfolio. For more information on how to create guidelines, vote proxies in a time-efficient manner, engage with investment managers on proxy voting and overcome common barriers, see Ceres' publication *Questions and Answers for Foundations about Proxy Voting*, on our website, www.ceres.org/proxyguidelines. Also, contact Ceres during the proxy season to learn which climate-related resolutions have been filed and are coming to an annual meeting vote.
- ***Help choose companies with whom to engage.*** For example, many INCR members are using shareholder resolutions to highlight the risks to electric power companies who are seeking to build coal-fired power plants that will be far more costly to operate once carbon-reducing regulations are enacted. Other sectors shareholders focus on include automobile manufacturers, banks, the building and retail sectors, and oil companies, among others.
- ***Co-sign shareholder letters to companies.*** For example, investors are collaborating on sending letters to companies who have been unresponsive to resolutions or requests for in-person dialogues.
- ***File climate-related resolutions.*** An investor can file a resolution if they own $2,000 or more of stock in a company and have held the stock continuously for one year. To magnify impact, foundations and individuals can collaborate with Ceres to secure support from large pension funds and mainstream proxy advisory firms, which is crucial for generating high votes. Filing deadlines for the 2009 season are in the fall of 2008.

2. Engage with Wall Street investment managers to incorporate climate change into investment decisions

The financial industry has a pivotal role in integrating climate change into investment decision-making. On a daily basis, for example, financial firms decide whether to finance coal-fired power plants, whether to question CEOs during quarterly earning calls about how they are responding to climate risk, or whether to factor climate risk into their research and evaluation of companies.

Asset owners, including foundations and individuals, have considerable leverage over financial firms. As one newly appointed family foundation director recently said, "We are just now fully recognizing that investment managers work for us and not the other way around." In good times and bad, financial firms depend on foundations, pension funds and other asset owners to be their biggest clients. Asset owners can have even more influence by coordinating their actions.

In early 2008, Florida Chief Financial Officer Alex Sink exerted her pension fund's clout by instituting an innovative initiative requiring external asset managers to respond to Florida's request for proposals by showing how they are analyzing the risks from climate change in their investment decisions. Dozens of other investors have since committed to take the same action with respect to their own RFP policies. Several investors are also collaborating on a survey of their managers to ask what they are doing to incorporate climate risk into their investment analyses, and the door is open for foundations to join in this effort.

Investor influence can motivate financial firms in various ways. For example, Ceres evaluated and ranked the climate-related practices of 40 of the world's largest banks in January 2008. Dozens of banks contacted Ceres after the report was released, requesting meetings to learn how they could improve their climate governance practices. Growing investor interest has also triggered dozens of new research reports by Citi, Sanford C. Bernstein and other Wall Street firms on the risks and opportunities companies and industry sectors face from climate change.

Specific Action Steps

- ***Encourage asset managers to evaluate climate risks.*** Foundations and individuals can do this in collaboration with other institutional investors who are doing the same.
- ***Issue requests for proposals (RFPs) and performance benchmarks*** that evaluate investment consultants' and managers' capacity to assess climate risk and opportunities.
- ***Co-sign investor letters to financial firms addressing climate change considerations in certain financing decisions.*** Such letters have been sent to:
  - financial firms regarding TXU's proposal to build 11 new coal-fired power plants in Texas (TXU has since canceled 8 of the 11 plants);
  - bond rating agencies addressing the value of bonds floated by municipalities to fund coal-fired power plants;
  - financial firms concerning the potential financial risks associated with carbon intensive oil sands development in Canada.
- ***Support changes in investment industry practices***, for example, by requesting to vote proxies in commingled funds based on percentage of asset ownership, by communicating a demand for new kinds of investment products such as green real estate funds tied to green building standards, and so on.

3. Join other institutional investors in supporting policy solutions and SEC regulatory actions

The next two years are especially critical for securing broad-based support for proactive U.S. climate and energy policies. The economy is at the center of the climate debate. And, as policymakers test the political winds to determine their positions on climate change policy, many will be strongly influenced by the voices of the financial, business, and investor community.

In this context, institutional investors, such as the chief investment officers of public pension funds, have been weighing in to make influential public statements about the economic benefits of strong climate policy, and the fact that strong policy will send the right market signals and ultimately prove the least costly option for the U.S. economy.

Foundations can play a crucial role in this regard, by funding reports, convening events in key states, and taking other initiatives that provide a platform for credible messengers to communicate key messages about the economic imperative for climate policy action.

In addition, in the wake of the financial crisis, the world's attention is increasingly focused on the need for honest accounting of financial risks – and climate risk threatens to become the next sub-prime meltdown. As the U.S. Securities and Exchange Commission (SEC) re-writes the rules governing capital markets, investors have an unusual opportunity to help weave climate and sustainability considerations into the very structure of the financial system.

Specifically, foundations have an opportunity to encourage the SEC to require all companies to assess and report the climate risks they face as part of the liabilities that all companies must already disclose to shareholders. There are a host of critically important rules to be revised, such as rules pertaining to how oil companies include tar sands and oil shale in their accounting of their oil reserves—even when these sources include massive added carbon emissions associated with their extraction. Changing these rules can help shift capital markets to favor investments in energy efficiency and renewables. Foundations have an opportunity to join with other investors to develop these analyses and give input into SEC rulemaking procedures.

Specific Action Steps

- ***Help communicate key messages*** to win the debate on the economics of climate change. Ceres provides media support to leaders in the investor, business, and financial communities to achieve this goal.
- ***Join with other investors in Ceres' $7 trillion Investor Network on Climate Risk*** to encourage the SEC to require companies to disclose climate risk liabilities that will help investors to make informed financial decisions. The collective clout of INCR has already catalyzed congressional hearings on the role and responsibilities of the SEC, high-level meetings with SEC officials, legal proceedings and hundreds of news articles in opinion-leader press and business journals on this topic.

4. Investing in Clean Technologies and Energy Efficiency

The Investor Network on Climate Risk (INCR) provides an opportunity for foundations and individual investors to dialogue with the nation's largest public pension funds about investment trends and new products that the large funds, by virtue of the size, are able to catalyze in the investment industry. Among the groups foundations and individual investors can participate in:

- ***Clean Energy Investment Working Group***, which Ceres convenes with the Clean Energy Group and that focuses on supporting INCR members to achieve the ambitious goal, announced at the 2008 Investor Summit, of investing $10 billion in clean technologies over the next two years.
- ***Real Estate Working Group.*** Several of the nation's largest pension funds are spurring real estate investment companies to measure and track the energy use of real estate assets and to document efficiency improvements. The new products emerging from this work will offer new kinds of investment opportunities. The real estate working group of INCR is focused on this effort and many other ways for members to achieve the goal announced at the 2008 Investor Summit of increasing the energy efficiency in real estate holdings by 20% in three years.

5. Coordinating with other institutional investors to address climate risk

To coordinate their actions on climate risk, foundations are invited to join the Investor Network on Climate Risk (INCR), which is a network of 70 institutional investors and financial institutions that promotes better understanding of the financial risks and investment opportunities posed by climate change. INCR is coordinated by Ceres, a coalition of investors and environmental groups working with companies to address sustainability challenges such as climate change.

INCR has eight ongoing working groups that focus on key sectors such as transportation, electric power and coal, oil and gas, and real estate – as well as on clean energy investment, policy, and climate risk disclosure.

The foundations listed below have engaged in INCR supported actions, including serving as conveners of the 2008 Investor Summit on Climate Risk and/or signing the 2008 Summit Action Plan

Diane Edgerton Miller, President and CEO
Blue Moon Fund

Denis Hayes, President and CEO
Bullitt Foundation

Pam Solo, President
Civil Society Institute

Edith T. Eddy, Executive Director
Compton Foundation

Joan E. Spero, President
The Doris Duke Charitable Foundation

Eric Heitz, President
The Energy Foundation

Jesse Fink, Co-Founder
Betsy and Jesse Fink Foundation

Ruth G. Hennig, Executive Director
The John Merck Fund

Theodore M. Smith, Executive Director
The Henry P. Kendall Foundation

Jenny D. Russell, Executive Director
The Merck Family Fund

Lance E. Lindblom, President & CEO
Nathan Cummings Foundation

Dave Beckwith, Executive Director
The Needmor Fund

Bradford Smith, President
The Oak Foundation

Stephen A. Foster, President and CEO
The Overbrook Foundation

Stephen B. Heintz, President
Rockefeller Brothers Fund

Lee Wasserman, Director
Rockefeller Family Fund

Richard Woo, CEO
The Russell Family Foundation

Sally Osberg, President
Skoll Foundation

Phillip W. Henderson, President
The Surdna Foundation

Stewart J. Hudson, President
Tremaine Foundation

Timothy E. Wirth, President
United Nations Foundation

Martin S. Kaplan, Trustee
The V. Kann Rasmussen Foundation

Wren W. Wirth, President
The Winslow Foundation

For more information on joining INCR, or participating in INCR actions, please contact David Ziv-Kreger at Ceres at ziv-kreger@ceres.org or 617-247-0700 x137.

Environmental Grantmakers Association

The Environmental Grantmaker's Association (EGA) serves the collective goals and interests of 225 environmentally focused foundations from North America and around the world. The mission of EGA is to help member organizations become more effective environmental grantmakers through information sharing, collaboration and networking. EGA's vision is one of an informed, diverse, collaborative network of effective grantmakers who are supporting work toward a sustainable world.

Ceres

Investor Network on CLIMATE RISK

Ceres is a national network of investors, environmental organizations and other public interest groups working with companies to address sustainability challenges such as global climate change. Ceres coordinates the Investor Network on Climate Risk, a network of more than 70 investors with more than $7 trillion in assets.

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