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CIMA Society of Australia Seminar Series
21 March 2018

Walking the Walk - The Growing Asset Activism Movement

Speaker:
Dr Ellen Dorsey– Executive Director, Wallace Global fund

Chair: Keri Pratt, State Super

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Disclaimer: Divest Invest assumes no legal or financial responsibility for the practices, products, or services of any businesses listed. The funds listed are examples, not recommendations. Please read all materials carefully prior to investing.

This presentation will cover:

- What the Paris Agreement means for investors 3
- What is Divest Invest 7
- Divest Invest is the prudent financial choice 12
- Divest Invest fulfills fiduciary duty 21
- Fossil free investing: from niche to mainstream 27
- Divest Invest options for every asset class 31

What the Paris Agreement means for investors

DivestInvest

Under the Paris Agreement, world governments commit to keep global temperature rise to well below 2°C and to pursue efforts to limit it to 1.5°C.

To achieve this, up to 80% of fossil fuel reserves can't be burned. They are stranded assets whose economic value won't be realized. Investors are sitting on a carbon bubble.

Climate risks, including stranded assets, pose a material threat to investor portfolios now, say a growing chorus of financial regulators, asset managers, analysts, policymakers and ... oil companies:

FSB Financial Stability Board · Bank of England · HSBC · Goldman Sachs · CalSTRS

BlackRock · Moody's · citi · Shell · European Parliament

FINANCIAL TIMES

Mark Carney Warns Investors Face 'Huge' Climate Change Losses

(9/29/15)

FINANCIAL POST

Shell CEO Ben Van Beurden Has Seen The Future—And It's Several Shades Of Green

(10/18/17)

Business & Human Rights Resource Centre

European Parliament Calls On Public & Private Financial Institutions To Divest From Fossil Fuels

(9/28/17)

The Paris Agreement signals to markets that the global clean energy transition is underway and accelerating. Prudent investors are heeding the call.

Bloomberg

Norway Idea To Exit Oil Stocks Is 'Shot Heard Around The World'

- $1 Trillion Sovereign Wealth Fund May Divest From Fossil Fuels
- Divestment Movement Suddenly Has Unparalleled Momentum, Heft

(11/17/17)

Cleantechnica

World Bank, ING, & AXA Announce Fossil Fuel Divestment Worth Billions

- The global divestment movement has been one of the most interesting developments to watch of the last decade
- Companies and institutions announcing big divestment targets are realizing that the risk of both stranded assets and harmful impacts on the environment are worth acting on

(12/13/17)

DivestInvest

What is
Divest Invest

DivestInvest

Divest Invest is a global social movement working to accelerate the clean energy transition, while protecting the bottom line.

Institutions and individuals commit to moving their money out of fossil fuels and into climate solutions in 3 easy steps:

1 STOP new investments in fossil fuel companies

- Carbon Underground 200 provides No-Buy list
- Communicate list to money managers and external consultants

2 DIVEST existing investments in fossil fuel companies

- Immediate sale of direct holdings
- Unwind commingled holdings over set time frame

3 INVEST at least 5% of portfolio into climate solutions, such as:

- Renewable energy
- Battery storage
- Energy efficiency
- Sustainable agriculture
- Clean energy access

Divest Invest is the ethical, financial and legal choice

- ETHICAL: Institutions risk their reputations, and face civil protest, by investing in the companies driving climate change.
- FINANCIAL: Fossil fuels are the worst-performing sector of the S&P five years running. Meanwhile, the clean energy transition is here, now.
- LEGAL: Trustees for institutional investors have a fiduciary duty to manage climate risk.

This triple synergy continues to fuel the movement's explosive growth.

Divestment commitments have soared from $50 billion in 2014 to over $6 trillion today

The New York Times

Investment Funds Worth Trillions Are Dropping Fossil Fuel Stocks

(12/12/16)

Over 700 institutional investors – including sovereign wealth funds, pensions, cities, insurers, universities, faith groups and philanthropies – have committed to divest.

Sample divestment commitments:

Insurers

Swiss Re

Allianz

AXA

Universities

University of Oxford

Stanford University

Trinity College Dublin
Coláiste na Tríonóide, Baile Átha Cliath
The University of Dublin

Sovereign Wealth Funds

Faith Groups

World Council of Churches

The Lutheran World Federation

The Church of England

Philanthropies

Rockefeller Brothers Fund
Philanthropy for an Interdependent World

CIFF Children's Investment Fund Foundation

Wallace Global Fund

Cities

New York City
Berlin
Washington D.C.
Cape Town

Divest Invest is the

prudent financial choice

DivestInvest

Fossil fuels are underperforming and volatile, Burning portfolios today

Oil and gas stocks are the worst-performing sector of the S&P 500 over five years:

S&P 500 Sector Returns	Q1 2017	2016	2015	5 YR Ann.
S&P 500	6.1%	12.0%	1.4%	13.3%
Consumer Discretionary	8.1%	4.3%	8.4%	16.3%
Consumer Staples	5.6%	2.6%	3.8%	12.9%
Energy	-7.3%	23.7%	-23.6%	1.7%
Financials	2.1%	20.1%	-3.5%	15.3%
Health Care	7.9%	-4.4%	5.2%	16.7%
Industrials	4.0%	16.1%	-4.7%	14.1%
Information Technology	12.2%	12.0%	4.3%	14.6%
Materials	5.3%	14.1%	-10.4%	9.5%
Real Estate	2.7%	0.0%	1.2%	7.0%
Telecom Services	-5.1%	17.8%	-1.7%	10.3%
Utilities	5.4%	12.2%	-8.4%	12.1%
10 YR Treasury	-0.8%	0.1%	1.3%	2.0%

Credit: RBC Wealth Management

Bloomberg

Big Oil Vows to Keep Prices Up as Dividends Falter

(3/29/17)

The fossil fuel industry is experiencing unprecedented strain as profits shrink, borrowing balloons and assets are stranded. Borrowing is being used to pay dividends, a practice that cannot be sustained.

A new wave of climate litigation will further imperil the industry and its investors. The bottom could drop out suddenly, without warning – much like the housing crash.

San Francisco Chronicle

Investors Take Note—Climate Suits Are Already Here

(10/5/17)

DivestInvest

Endowments that don't divest are leaving money on the table

A 2013 Associated Press report found that a university endowment that divested would have avoided substantial losses:

"An endowment of $1 billion that excluded fossil fuel companies would have grown to $2.26 billion over the past 10 years. But an endowment that included investments in fossil fuel companies would have grown to $2.14 billion. That extra $119 million could pay for 850 four-year scholarships, assuming tuition of $35,000 per year."

Spotlight

HARVARD
UNIVERSITY

Rejecting calls to divest, Harvard University has ceded ethical ground only to underperform financially.

Describing the results as "disappointing," Harvard reported that its $37.1 billion endowment earned an 8.1% return for the last fiscal year.

HARVARD MANAGEMENT COMPANY, INC.

Message from the CEO
SEPTEMBER 2017

Dear Members of the Harvard Community,

I'm writing to share with you the performance of the Harvard endowment for fiscal year 2017 and to provide an update on our progress since my January letter.

For the fiscal year ended June 30, 2017, the return on the Harvard endowment was 8.1% and the value of the endowment was $37.1 billion. Performance reflects strong returns from public equity, private equity, and our direct real estate platform, while natural resources experienced a challenging year. We also executed secondary sales in real estate and private equity that generated significant liquidity for the endowment.

NEW YORK
STATE OF
OPPORTUNITY.

The New York State Common Retirement Fund is the third largest public pension plan in the nation with over $190 billion held in trust for more than one million members.

In 2016, Corporate Knights found that the Fund would have boosted its returns by $5.3 billion, over three years, had it divested – making each fund member more than $4,500 richer.

theguardian

New York Pension Fund Could Have Made Billions From Divesting From Fossil Fuels—Report (3/4/16)

Fossil free funds & portfolios are beating their benchmarks, delivering strong returns

InvestorDaily

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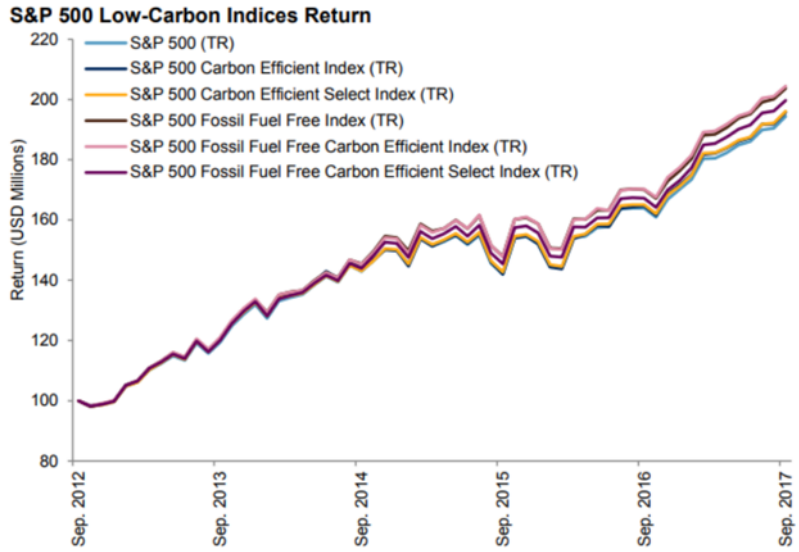
SHARES

In comparing the returns of six versions of the S&P 500 Index in a report titled *Stepping Up to Carbon Transparency*, S&P Dow Jones argued against the myth that low-carbon indexes delivered lower returns.



Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 2017.

"The low-carbon versions of the S&P 500 actually outperformed the benchmark over the five-year period," the report said.

Spotlight

Syracuse University

More than two years after Syracuse University decided to divest from fossil fuels, its chief financial officer says there is no evidence the endowment has suffered as a result.

In fact, the $1.25 billion endowment is up 12% since divesting.

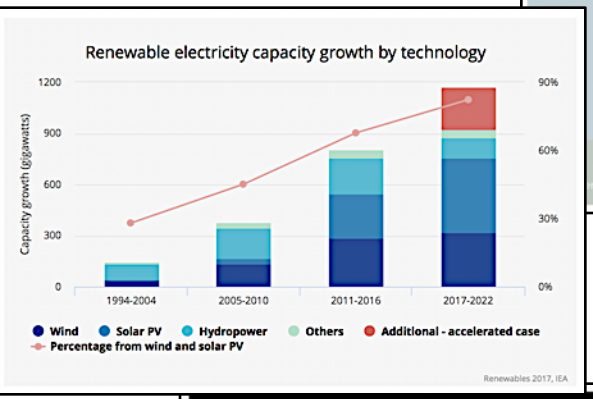
WALLACE GLOBAL FUND

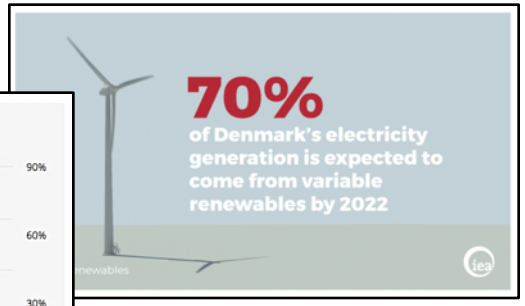
The fossil free portfolio fully integrates environment, social and governance (ESG) criteria to mitigate risk and generate outperformance. The fund's carbon footprint is just 12% of its benchmark, and 17% of the portfolio is invested in climate solutions.

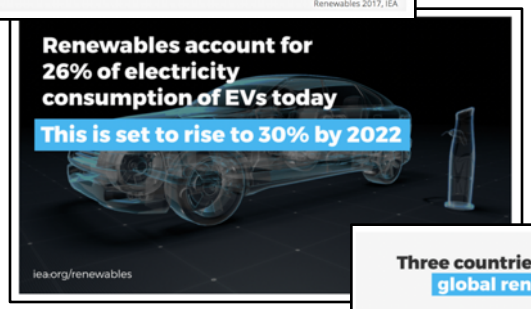
This year, WGF's return was up 16.65% vs. custom benchmark 10.78%.

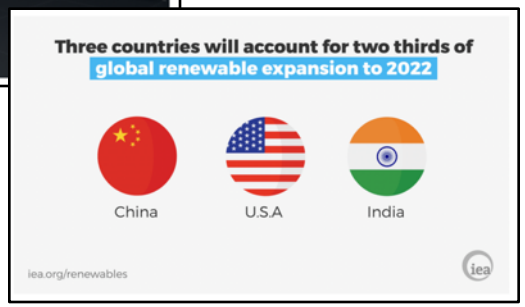
- 3-yr number: 6.14% vs. custom benchmark 4.17%
- 5-yr number: 9.22% vs. custom benchmark 7.16%

The clean energy transition is here, now





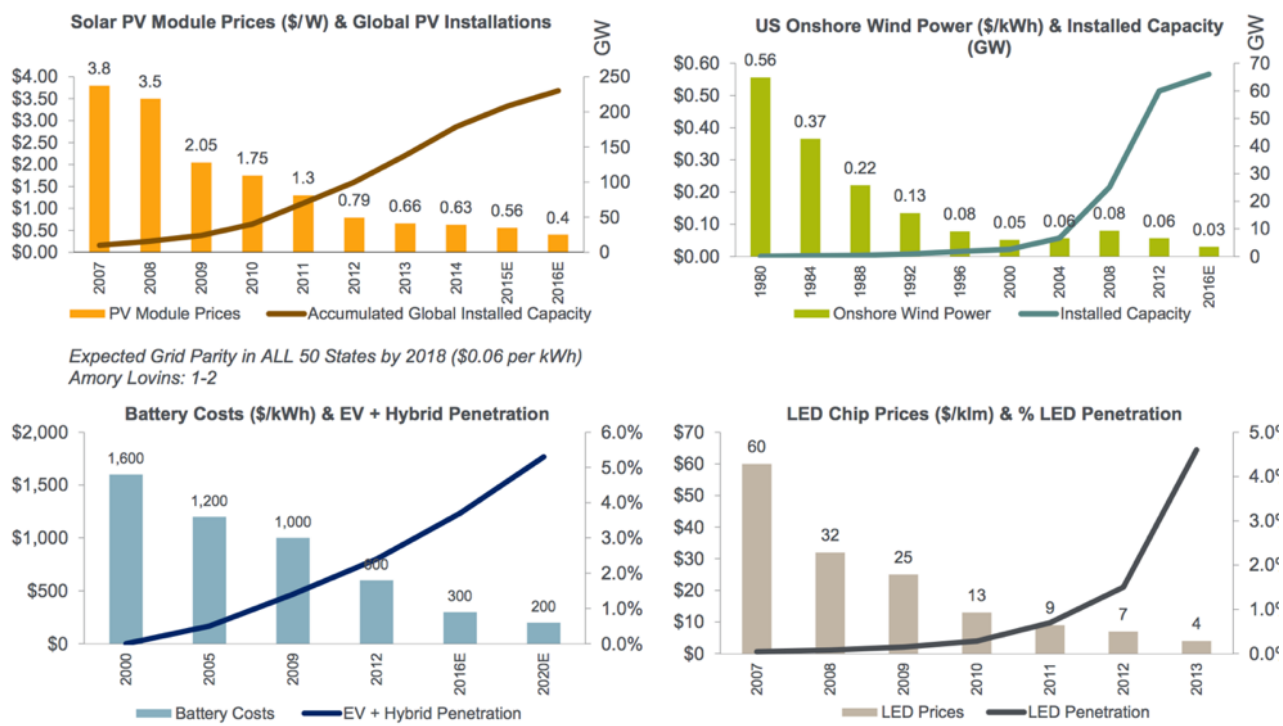




- Renewables accounted for almost two-thirds of net new power capacity around the world in 2016.
- New solar PV capacity grew by 50% globally last year.
- For the first time, solar PV additions rose faster than any other fuel, surpassing the net growth in coal.
- Clean energy will reap 86% of the $10.2 trillion likely to be invested in power generation by 2040, says Bloomberg.

Credit: International Energy Agency

Unstoppable momentum as costs plummet & deployment soars



Divest Invest fulfills

fiduciary duty

DivestInvest

Climate risk is a material financial risk, per the Financial Stability Board & many more

Ignoring climate risk – like any material risk – violates fiduciary duty.

Divest Invest is a proven approach to managing climate risk.

theguardian

Fund Managers Who Ignore Climate Risk 'Could Face Legal Action'

(2/10/16)

"Directors who fail to consider 'climate change risks' now could be found liable for breaching their duty of care and diligence in the future."
—Noel Hutley SC, Future Business Council

"Fund managers who ignore climate-related risk may be violating duties owed to fund beneficiaries, and exposing trustees and other fiduciaries to liability."
—Mercer & CIEL, Trillion Dollar Transformation

"Failing to consider long-term investment value drivers, which include ESG issues, in investment practice is a failure of fiduciary duty."
—Fiduciary Duty in the 21st Century, PRI, UNEP FI and UN Global Compact

"Future climate risks [from 4°C warming] could lead to economic shocks and losses of up to 45% in an equity investment portfolio value."
—Unhedgeable Risk, Cambridge Institute for Sustainability Leadership

theguardian

Why The Council Pension Fund I Chair Is Divesting £1.2BN Out Of Fossil Fuels

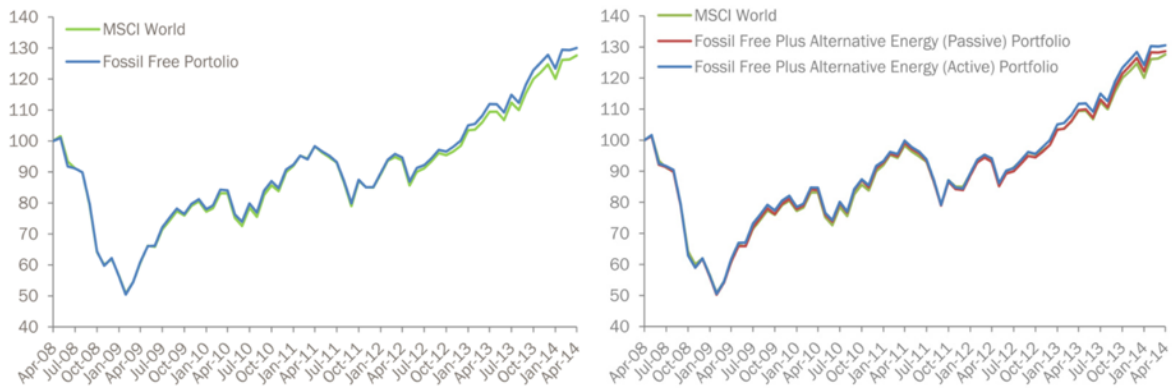
(11/13/17)

"[The pension fund's decision to divest was] based ... primarily on our belief that climate change and significant investments in fossil fuels present a long term financial risk to our fund. We are clear that our action to reduce the carbon exposure of our fund is wholly consistent with our fiduciary duties as pension fund trustees."

—Fiona Colley, Chair, Southwark Council Pension Fund

What about tracking error?

Figure 1 – Six year cumulative returns for two alternatives to portfolio construction (rebased to 100)



Source: Factset, WM Reuters. Data to 30 April 2014 in USD.

What about it: Investors can replace fossil stocks with energy efficiency and renewable energy investments, retaining exposure to the energy sector while reducing climate risk.

Divest Invest portfolios routinely outperform with negligible increases in tracking error.

Spotlight

storebrand

Storebrand, Norway's biggest asset manager, fully divested across all asset classes, selling off 13% of its portfolio. This boosted tracking error.

"Yet, every time you sell it's an opportunity to buy."

Storebrand set maximum acceptable tracking error at 1% and worked backwards:

- Succeeded in creating 3 passive Fossil Free Funds with same risk profile as parent indexes.
- Now, between 5-10% of Storebrand's $62B portfolio is invested in climate solutions.

Fossil free investing:
from niche to mainstream

DivestInvest

Supply is meeting demand

- The universe of institutional fossil free funds, including passive funds and ETFs, has ballooned in recent years to keep pace with demand.
- A cottage industry of fund managers and investment advisors now specialize in fossil free investing.
- Major players have launched sustainable investment product lines:

Goldman Sachs | Morgan Stanley | Bank of America | Royal Bank of Canada | Deutsche Bank | BlackRock

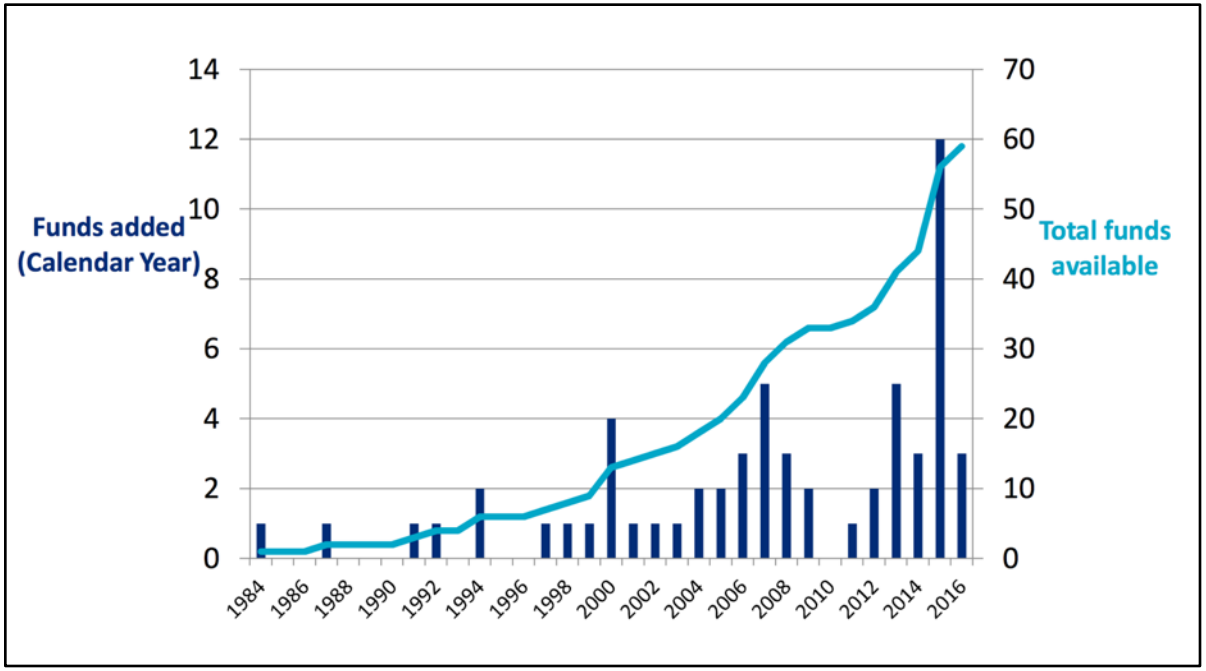
New funds can absorb the volumes associated with large institutional investors.

Institutional Investor

McKinsey: ESG No Longer Niche As Assets Soar Globally

(10/27/17)

Fossil free public equity funds for institutional investors



Credit: Mercer

New funds coming online all the time:

In August 2017, Pitzer College and BlackRock announced the first ever global equity index fund that is both ESG-focused and fossil free.

The MSCI ACWI ex-Fossil Fuels ESG Focus Index Fund B is designed to help endowments, foundations and other nonprofit organizations meet their responsible Investment goals.

BLACKROCK PITZER COLLEGE MSCI

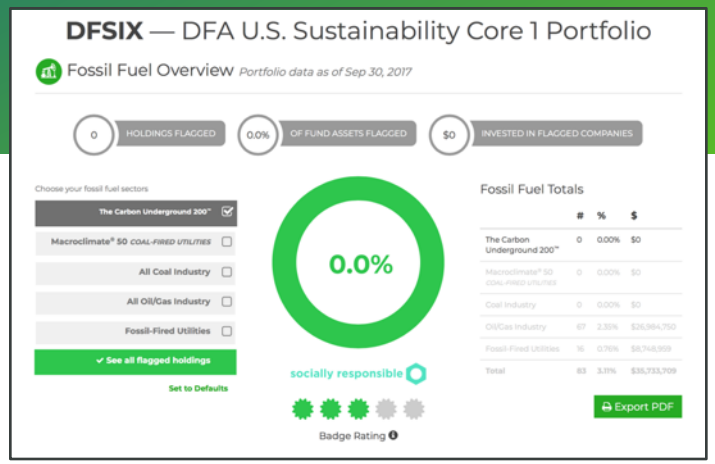
Divest Invest options in every asset class

DivestInvest

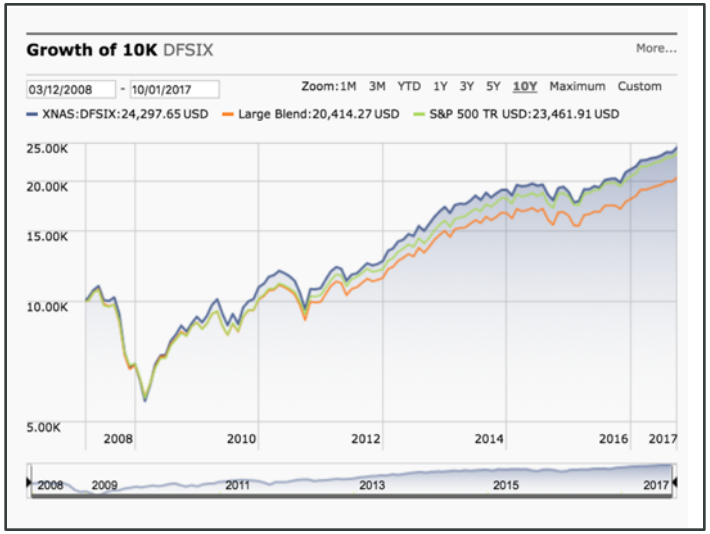
Public Equity

Dimensional Fund Advisors is a large asset manager with nearly half a trillion in assets under management. This is a prime example of a major player launching a new fossil free fund to meet demand.

The examples of fossil free funds described in this section are all institutional funds with capacity to absorb large volumes. The funds listed are for illustrative purposes only, and do not reflect an endorsement or recommendation to buy.

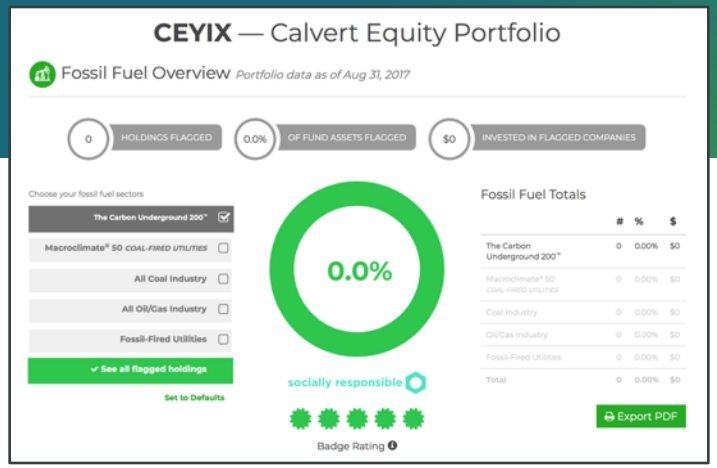


Credit: Fossil Free Funds, a project of As You Sow

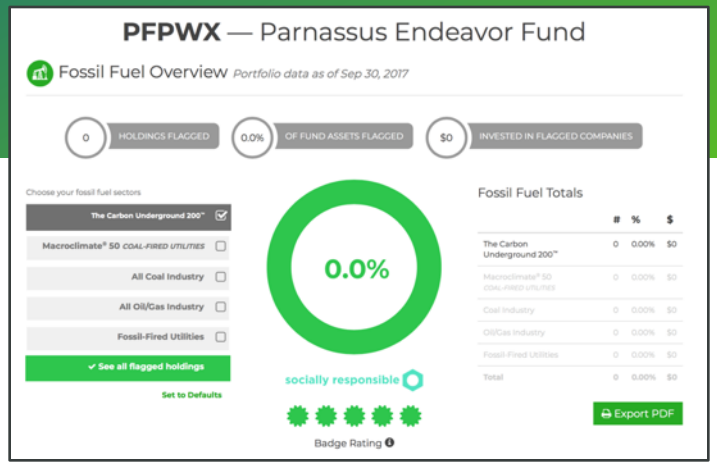


Credit: Morningstar

Public Equity



Credit: Fossil Free Funds, a project of As You Sow



Credit: Fossil Free Funds, a project of As You Sow

Credit: Morningstar

Credit: Morningstar

Fixed Income

Institutional bond funds with a formal policy of excluding fossil fuels:

- Access Capital Community Investment Fund I (ACCSX)
- CRA Qualified Investment - Institutional (CRANX)
- Domini Social Bond Fund - Institutional shares (DSBIX)

SMA fixed bond strategies with a formal policy of excluding fossil fuels:

- Access Capital Community Investing
- Calvert Bond Strategy
- Community Capital Management Intermediate Fixed Income Composite
- Parnassus Core Fixed Income
- SNW Blend Intermediate Impact Strategy
- SNW Municipal Intermediate Impact Strategy
- SNW Taxable Intermediate Impact Strategy

Credit: US SIF

Fixed Income

Other fixed income options include:

- World Bank Green Bonds
- Municipal bonds for transit-oriented development and other projects that reduce carbon intensity
- Notes offered by community development loan funds that promote transit-oriented development or energy efficiency retrofits for buildings
- Sustainable agriculture and other environmentally oriented projects

Alternative Asset Classes

There is no public clearinghouse for these funds. In 2016, Divest Invest commissioned Mercer to compile a list of fossil free institutional funds, across all asset classes.

The research turned up a robust and growing universe of investment opportunities in the private equity and infrastructure space, with more limited options in the hedge fund arena.

The full list of funds is available to all Divest Invest signatories.

Private Markets

FUND MANAGER	FUND	TYPE	GEOGRAPHIC FOCUS	OVERVIEW
BainCapital	Bain Capital Double Impact Fund	Growth	US	Bain Capital Double Impact pursues investments across asset classes to impact distressed communities in North America. The fund is run by former Massachusetts Gov. Deval Patrick and seeks to make investments in line with the core themes of sustainability, health, and community building.
sonen capital	Sonen Global Multi-Strategy	Fund of Funds	Global	Sonen Global Multi-Strategy ("GMS") is a portfolio of alternative investment strategies designed to achieve compelling risk-adjusted returns with tangible environmental and social benefits. GMS will seek to provide low correlation to public equities and fixed income markets through specialized investment exposures and thematic impact opportunities.
BLACKROCK	Global Renewable Power Fund II	Infrastructure	Global	The Fund will own large scale onshore wind & solar photovoltaic projects in North America and other OECD countries. The Fund plans to invest in fundamentally sound projects through partnership with leading global renewable power project developers. Investments will be sourced from long-standing working relationships with the largest industry participants
OppenheimerFunds	Clean Energy Environment Fund	Growth	Asia	The Clean Energy Environment Fund is an investment vehicle targeting growth investments into companies operating in the clean technology and renewable energy sectors in China
Allianz	Allianz Renewable Energy Fund II	Infrastructure	Europe	Allianz Renewable Energy Fund II, like its predecessor fund, targets the acquisition of renewable energy generation assets, specifically wind power assets, within Germany and the wider European continent.

Hedge Funds

MANAGER NAME	INVESTMENT PRODUCT / STRATEGY NAME	INVESTMENT STRATEGY CATEGORY	BENCHMARK
altinv	Alternative Investments Sustainability, L.P. / Alternative Investments Sustainability, Ltd.	Fund of Funds	HFRI Fund of Funds, MSCI All-Country World, Barclays Aggregate Bond
SUMMIT PARTNERS	Summit Partners Sustainable Opportunities L/S Fund, L.P.	Long Short Equity	S&P 500 Total Return Index, MSCI ACWI Index and HFRI Equity Hedge (Total) Index
Zevin Asset Management, LLC PIONEERS IN SOCIALLY RESPONSIBLE INVESTING	Global Appreciation	Liquid Alternatives - Other	MSCI ACWI
PEKIN SINGER STRAUSS ASSET MANAGEMENT	Appleseed Pioneer LP	Long Short Equity	S&P 500
FARALLON Est. 1986	Farallon Fossil Fuel Filtered Funds ("F5")	Global multi-strategy	N/A

Divest Invest makes sense financially and it is your fiduciary duty to manage climate risk. It is also the clear moral choice. In the final analysis, we must all act aggressively to limit climate change. Our investments are one more tool to aid in the speedy transition.

There is a coalition of investment committee members, advisers and trustees available to respond to your questions. Please contact clara@divestinvest.org to get in touch.

Don't get burned by climate risk.

Capture the upside of the clean energy transition.

Divest Invest.

Disclaimer: Divest Invest assumes no legal or financial responsibility for the practices, products, or services of any businesses listed. The funds listed are examples, not recommendations. Please read all materials carefully prior to investing.

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Slide 4

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Slide 5

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Slide 10

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  http://www.sectorspdr.com/sectorspdr/Pdf/All Funds Documents/Document Resources/10 Year Sector Returns

Slide 11

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