

# How to Divest a Health Institution



# About Medact

## Authors

Alice Munro, Joel Moreland and Alistair Wardrope

## Acknowledgements

Medact and Joel Moreland are keen to share this briefing with institutions in the UK that are sufficiently sophisticated to make investment decisions. We do not intend for it to be made available to others, particularly to retail investors, for example by putting it on a public website. In addition neither Medact nor Joel Moreland are responsible for any circulation of this document outside of the UK and we recommend you seek advice before circulating this anywhere else.

## Declaration of interests

Medact gratefully acknowledge the support of The Climate Change Collaboration in supporting Medact's work on fossil fuel divestment.

Medact educates, analyses and campaigns for global health on issues related to conflict, poverty and the environment. We aim to mobilise the health community to support policy change and shift public attitudes. Medact is now over 20 years old, and our remit has grown to cover four distinct but interconnected programme areas:

- **Peace and Security**
- **Climate and Ecology**
- **Economic Justice**
- **Health and Human Rights**

Medact was formed by health professionals who sought to harness their expertise, mandate and ethical principles to raise awareness and speak out on health issues. Our members continue to be the cornerstone of Medact's activities through their active involvement in research and advocacy. Medact's members provide the bulk of our funding, which enables us to conduct independent research.

Medact is the UK affiliate of the Nobel Peace Prize winning organization International Physicians for the Prevention of Nuclear War (IPPNW).



Published by  
Medact  
The Grayston Centre, 28 Charles Square,  
London N1 6HT, United Kingdom

T +44 (0)20 7324 4739  
E [office@medact.org](mailto:office@medact.org)

**[www.medact.org](http://www.medact.org)**

Registered charity 1081097 Company reg no 2267125

© Medact 2017

# Contents

Foreword	4
Executive Summary	5
Introduction	6
Climate Change and Health	7
Climate Change and Financial Risk	8
The Divestment Process	11
Conclusion	13
Appendices	13
L&G Future World Fund	16
AT Sustainable Futures	18
WHEB	21

# Foreword

Prof. John Middleton, President Faculty of Public Health

Two years ago Medact and partner organisations produced *Unhealthy Investments*, a report which powerfully outlined the direct and indirect impacts that fossil fuels have on health. The report made a strong ethical, health and financial case for selling investments in fossil fuels. It is well established that many of the actions required to mitigate climate change will bring substantial health benefits, including the immediate health gains generated by cutting air pollution and increasing walking and cycling.

Since that first report, the Paris agreement to cut carbon emissions in line with 1.5-2°C global warming has entered into force, and we've witnessed huge growth in renewable energy and related technologies. It is therefore now more imperative than ever that the health sector positions itself as invested in the solutions to climate change.

It is my personal commitment that the Faculty of Public Health should move to complete divestment of our investment portfolio from fossil fuels during my term of office as President. It is often stressed by financial managers how difficult it is to extricate socially

and environmentally beneficial investments from those which are damaging. However, this report clearly presents the case for why and how we must divest fossil fuels. From a purely financial perspective, the share value of fossil fuel companies depends on the companies owning large volumes of coal, oil and gas that are yet to be extracted. In future, as demand for renewables grows, these are likely to be worth less and taxed more, effectively becoming 'stranded assets'. Moreover, there is increasing risk to the reputation of health institutions if we continue to invest in this sector. For these reasons, I, as President of the UK Faculty of Public Health, say no to investment in fossil fuels, and hope that we are on a journey towards socially-useful, environmentally-friendly investing.

Whilst this will not be achieved overnight, the Faculty of Public Health are nevertheless committed to it. The Faculty of Public Health's standpoint will be strengthened further by working with other Royal Colleges and health professional bodies in pursuing a fossil fuel-free future, and this process must begin with fossil fuel divestment.

## Executive Summary

In *Unhealthy Investments*, our first report on health and divestment two years ago, climate change was described as posing ‘*significant threats to human health and survival, necessitating urgent emissions reductions*’.<sup>1</sup> Since then, climate change has been recognized as potentially the greatest opportunity to promote health, via the actions required to mitigate it.<sup>2</sup> This short guide seeks to build on the case presented in our first report by presenting the divestment options available to investors, and should be read in conjunction with that first report.

It is now established that, for investors, there is no ‘business as usual’ option in the face of climate change: investment portfolios need to be prepared for both policies that curb climate change, and the significant impacts of unchecked climate change on the value of assets. The UK’s Committee on Climate Change has stated that ‘*to stay close to 1.5°C (global warming) CO<sub>2</sub> emissions would need to reach net zero by the 2040s*’, illustrating the speed at which the energy sector will need to decarbonize to avoid the worst impacts of climate change.<sup>3</sup>

This guide explains how divestment from fossil fuels can serve the dual purpose of reflecting the priorities of health professionals, who

are naturally concerned by the impacts of investments, and function as prudent risk management that protects investors’ long-term interests. It also shows that it is now entirely feasible to mitigate a range of climate related risks by divesting fossil fuels.

The risks associated with fossil fuel investments are many, including the risk of technological advancements in renewables and energy efficient technology, the risk of fossil fuels becoming ‘stranded assets’, the risk of liability, and not least the risk of reputational damage to institutions.

Divestment is explained in this guide as a managed process that for most investors takes place in stages:

A range of investment advisors and fund managers are available to facilitate this, providing various options from passive portfolios to active bespoke services. Some of these are profiled in the appendices at the end of this briefing.

Case studies of health institutions around the world that have developed divestment policies illustrate the range of options available.

### How to Divest

- 1. Consult with members and stakeholders:** to establish aims and motivations of divestment.
- 2. Financial needs analysis:** portfolios are constructed from different types of assets to meet future liabilities, and any of these may be exposed to climate risk, not only equities. It is important to first examine current exposure to climate related risks, before exploring how to mitigate these.
- 3. Consider divestment options:** there are multiple divestment solutions that suit different types of organisations, as evidenced by the case studies in this guide. Each organisation will have its own requirements and inclusion/exclusion criteria, and whilst divest-invest sounds prescriptive there is flexibility in how the process can be approached.
- 4. Choose investment advisors, managers and funds:** there are now a range of good consultants, advisors and managers to select from who understand the need to balance shorter and longer term climate risks, the needs of different stakeholders, and who provide frameworks to establish goals and implement them.
- 5. Be transparent:** demonstrating leadership through aligning members’ interests to prudent risk management and a mission sends a highly credible message to the market, regulators and public. This links to the importance of asset holders signaling to governments and regulators that they want to avoid the risks associated with inaction in the face of climate change.

## Introduction

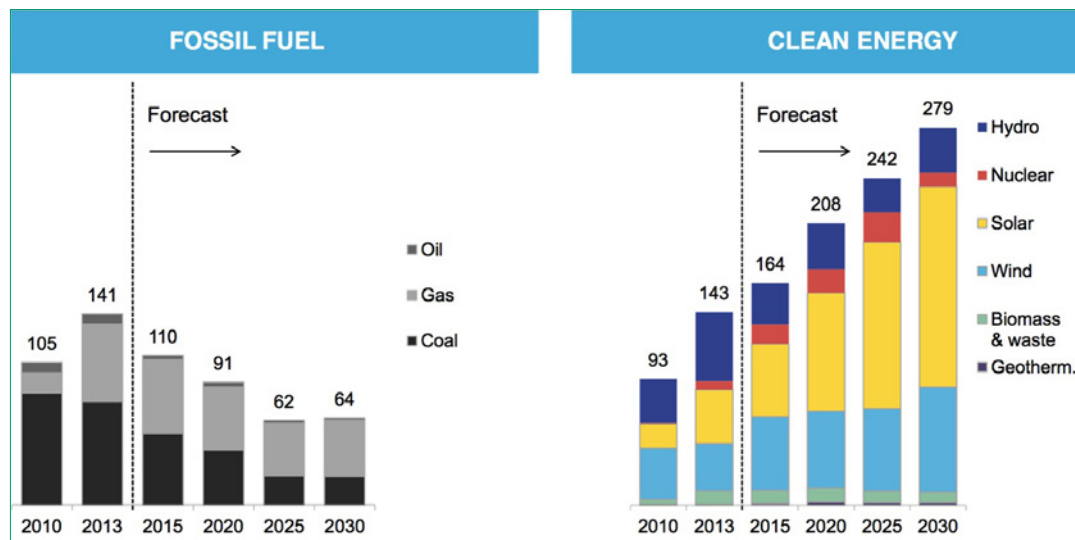
In 2015, Mark Carney highlighted the “tragedy of the horizons”, that the long term costs of climate change will far exceed the short term costs of seeking to address it.<sup>4</sup> For bodies with a public profile and a reputation to protect, divestment signals to governments and regulators that they want to avoid the risks associated with not acting on climate change.

The financial and political rationale for fossil fuel divestment of assets is now widely accepted: 688 institutions around the world with assets under management (AUM) of US \$5.2 trillion have now committed to the DivestInvest campaign.<sup>5</sup> Alongside this, 2015 saw a new record for global investment in renewable energy, with over twice as much being invested in new renewables than in new coal and gas generation that year. In the words of one analyst “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.”<sup>6</sup> Figure 1 shows recent and forecast new power capacity by sector.

For these reasons numerous health sector investors have begun the process of divesting fossil fuels, including the Swedish medical pension fund, Danish health and social care pension fund, Berlin Doctors Pension fund, the Canadian Medical Association among others. There have also been numerous votes in favour of divestment by membership bodies, including from members of the British Medical and Canadian Medical Associations, the World Medical Association, and National Nurses United, the largest nursing union in the United States.

While many in finance are focused on short-term returns, long-term investors need to take fiduciary duty relating to climate change seriously and find advisors who understand the issues in sufficient depth to support them. In the current period of rapid transition to a low carbon energy sector, accounting for the threats and opportunities arising from climate change must form part of the normal investment process rather than a separate exercise; it should be regarded the same as any other factor that impacts on risk and returns.

**Figure 1: Power generation capacity additions (GW) worldwide.**



Source: Bloomberg New Energy Finance 2015<sup>7</sup>

# Climate Change and Health

In 2009, the joint *Lancet*-UCL commission on managing the health effects of climate change described anthropogenic climate change as possibly “the greatest global health threat of the 21<sup>st</sup> century.”<sup>8</sup> Since that time, the dialogue around climate change and health has moved from an emphasis on the threats of unmitigated climate change, to emphasizing the opportunities for better public health from emissions-reduction policies,<sup>9</sup> complemented by an increasing understanding of how inextricably connected sustainable improvements in human health are to maintaining the health of our environment.<sup>10</sup> With an estimated 12.6 million deaths in 2012 (23% of all deaths worldwide) attributable to modifiable environmental factors,<sup>2</sup> the health sector cannot afford to ignore its impact on the environment.

The authors of the 2015 *Lancet* commission divide the health impacts of climate into three broad classes. Direct effects arise are the most straightforward links between climate change and health: floods, heatwaves, droughts, landscape fires, and climate-sensitive natural disasters. Rising temperatures will lead to dramatic increases in heat-related illness (with hospital admissions for such conditions predicted to more than double in Europe by 2050<sup>11</sup>), heatwaves produce huge rises in air pollution-related deaths,<sup>12</sup> and increased frequency and intensity of floods and other climate-sensitive natural disasters will have major implications for both physical and mental health.<sup>13</sup> Climate change also interacts with other physical and social processes, producing *indirect effects* on health. Some are mediated by *natural systems*; anthropogenic ecosystem perturbations are altering the range and distribution of vectors of zoonotic diseases like malaria and Dengue fever,<sup>14</sup> while biodiversity loss increases pathogen transmission rates for other zoonotic diseases.<sup>15</sup> Others arise from interaction with *human and social systems*, climatic factors acting as a threat multiplier for pressured social processes, causing forced migration,<sup>16</sup> food and water insecurity,<sup>17</sup> and conflict.<sup>18</sup>

Policy actions necessary to mitigate climate change can also have huge co-benefits for global health. International Energy Agency modelling predicts that a rapid transition to renewable energy generation, with CO<sub>2</sub> emissions peaking in 2020, would save 3 million premature deaths from air pollution by 2040,<sup>19</sup> while also being better positioned to bring the health benefits of energy access to the 1.3 billion people worldwide still living in energy poverty.<sup>20</sup> Eating more sustainable, less carbon-intensive plant-based diets reduces the risk of non-communicable diseases such as diabetes, heart disease, and strokes.<sup>21</sup> In more-industrialised nations, domestic transport alone accounts for around 12% of all carbon emissions – as well as contributing heavily to local air pollution – but by designing cities to encourage walking and cycling these emissions can be reduced while simultaneously reducing risk of diseases including coronary heart disease, stroke, diabetes, osteoporosis, dementia, depression, and cancer. Increasing cycling in British cities to the levels seen in continental Europe would, by 2030, prevent the loss of nearly 7500 disability-adjusted life-years across London – or save the NHS in the UK £17bn.<sup>22 23</sup>

The *Lancet* Countdown, an international research collaboration tracking progress in research and policy in areas central to climate change and health, identifies a range of indicators necessary to preserve human and planetary health.<sup>11</sup> Several of these indicator domains – phase-out of coal use, reduction in fossil fuel subsidies, increased annual investment in renewable energy – directly affect the bottom lines of fossil fuel companies, who have for decades stood in direct opposition to progress in these and other policy areas vital to health.<sup>24</sup> If a just transition to a low-carbon future is antithetical to the interests of the fossil fuel industry, then the health sector cannot afford to remain financially bound to that industry.

# Climate Change and Financial Risk

There are several real and material risks posed by climate change, which can be addressed through the process of divestment.

## Inaction Risk

Inaction in the face of climate change increases both the direct risk of damage to physical assets via exposure to extreme weather events, ecosystem disruption, rising sea levels, resource scarcity and poor crop yields and the indirect risks of lower growth, lower investment returns and higher uncertainty in the future.<sup>25</sup> It is already evident that climate change is affecting physical assets.<sup>26</sup> Given the many uncertainties regarding current and future climate change impacts it is difficult to position a portfolio in the face of these risks. It is because of this that asset holders and their advisors need to strongly support action on climate change by politicians and regulators.

High carbon scenarios will result in systemic damage to the global economy, with recent economic modelling estimating that in a presently realistic scenario (4°C warming this century), the value at risk may be equivalent to a permanent reduction of between 5% and 20% in portfolio value by 2030.<sup>27</sup> In another analysis the value at risk in business-as-usual scenarios is up to 16.9% of portfolios, or US\$24.2 trillion by 2050.<sup>28</sup>

Approaches to identifying and measuring climate change associated financial risk are constantly evolving. The Bank of England created the Financial Stability Board Taskforce on Climate-Related Financial Disclosures in order to develop the first global set of recommendations to assess and report on climate risks.<sup>29</sup>

## Stranded Asset Risk

Stranded assets have been defined as *'fossil fuel energy and generation resources which, at some time prior to the end of their economic life, are no longer able to earn an economic return, as a result of changes in the market and regulatory environment associated with the transition to a low-carbon economy'*.<sup>30</sup>

It is established that at least two-thirds of known fossil fuel reserves are unburnable if we are to avoid 2°C global warming.<sup>31</sup> As the share value of fossil fuel companies is dependent on extracting and selling their reserves this poses a major threat to their business model. Even excluding the reserves, some currently operating fields and mines will need to be closed before they have been fully exploited if we are to avoid 2°C of warming.<sup>32</sup>

These risks may also apply to related companies in the production process, and to utility, automotive and industrial sectors that will become stranded if affected by legislative, regulatory, technological and market-based responses to climate change. For example, the recent oil price collapse was the result of just a 2% shift in the supply-demand balance.<sup>33</sup> Taking that sensitivity into account, the forecast that in 2040 solar will provide 23% of power and electric vehicles 35% of transport suggests that the oil price will be acutely vulnerable.

Moreover, assets can become stranded very rapidly in response to developments in the above. This risk hits long-term investors hardest as the remuneration of company managers, and the fund managers who invest in them, is mostly short-term.

## Technological risk

In many countries renewable energy is now cheaper than fossil fuel generation, particularly where there is no electricity grid. Even in established markets the growth of renewable energy is impressive, for instance in 2016 renewables generated more electricity than coal.<sup>34</sup> In 2015 renewable energy investments hit a new record of \$285.9 billion, demonstrating that the risk of obsolescence is a material one that contributes further to stranded asset risk.<sup>35</sup> In addition the speed of this transition cannot be over-stated: In 2014 actual installed solar capacity globally exceeded what the International Energy Agency had forecast in 2007 by almost ten-fold, whilst installed wind capacity was more than double.<sup>36</sup>



### Box 1: PFZW Dutch Health and Social Care Pension Fund

PFZW is the €161 billion pension fund for the Dutch healthcare industry, representing 2.5 million employees. Following the launch of a Responsible Investment Policy in 2014, in 2015 the fund sought to reduce climate risk by aiming to halve the carbon footprint of its pension holdings by 2020. Managers intend to preserve financial returns *and* reflect the ambitions of its pension fund holders, *'to contribute to a world worth living in for future generations'*.

Together with its fund manager PGGM, PFZW have decided to sell investments in the highest CO<sub>2</sub> emitting businesses in the energy, utilities and materials sectors, (including power, mining and steel) which account for roughly 70% of the carbon emissions produced by PFZW's equity portfolio.

By 2020 the fund will have almost entirely divested coal companies and will have reduced holdings in the fossil fuel industry by 30%. The fund director Peter Borgdorff says that no asset class will be fully divested, instead they will hold on to best in class companies, and some of the money released by divestment will be reinvested in out-performers in these sectors.

During this process PGGM will pursue a strategy of active engagement with high emitting companies to exert pressure on them to reduce the carbon intensity of their operations – if the companies do not reduce the carbon intensity of their businesses PFZW will divest. This process will take place over four annual steps and result in investments being withdrawn from approximately 250 companies, depending on the outcomes of engagement

A spokesperson for PGGM said the cost of divestments and reinvestments would be minimal as they would form part of the natural flow of portfolio changes. Meanwhile the pension fund will increase its targeted investments in solutions four-fold - to 12% of the portfolio. This will include investments in solutions to water scarcity and food security, *'two topics that are related to climate change and in which Dutch expertise can play an important role'*.

## Yield risk

Historically fossil fuel companies have reliably paid high dividends. However, as companies begin to close facilities or cease to extract it is clear they will struggle to maintain this over the long-term. In the short-term far sighted fossil fuel companies can cut their exploration budget and redirect the money to pay a higher dividend. What has been seen recently, however, is that once the oil price recovered slightly oil and gas companies, particularly in North America, reinvested in exploration, at the expense of both short and long-term returns to shareholders.

## Reputational risk

For charities or bodies with a health mandate the increasing awareness of the direct health effects of air pollution, and the indirect health impacts of climate change, increase the reputational risk of investing in fossil fuels. This is particularly a consideration in light of the

fiduciary responsibility to protect the reputation of the organisation. The growth of cross-cutting environmental movements, in particular those in the financial space, raise the risk of reputational damage if institutions are not seen to be factoring climate change into their investment policies.<sup>37</sup>

## Diversification risk

The case studies presented in this guide demonstrate how it is possible to retain the benefits of diversification whilst also securing the benefits of divesting from fossil fuels. Investment advisors and fund managers often focus on the relative risk of a portfolio compared to a benchmark index, which is relatively easy to quantify but does not automatically match the risks faced by investors, such as paying a pension in 30 years' time. Just because an oil company is a large constituent of an index *now* it does not mean it will be in the future.

## Liability risk

There are now numerous examples of damages being sought from fossil fuel companies, including a case against Exxon filed by the US Conservation Law Foundation, against the US federal government filed by 21 young people<sup>38</sup>, and against the Norwegian government by a group of young people seeking to invalidate the licensing process for arctic oil.<sup>39</sup> Most recently Chevron announced that investor's money could be lost as a result of anticipated lawsuits.<sup>40</sup>

Meanwhile there is a slim but nevertheless increasing risk of litigation directed at investors themselves. In 2015 Christopher McCall QC published an opinion on the risks associated with investment in fossil fuels by charities, in which he concluded that current law certainly empowers

divestment by health charities, and in some cases may necessitate it.<sup>41</sup>

In the opinion of Pam McAllister, Partner and Director of Mercer Legal 'Trustees with long-term investment horizons who fail to take account of this risk may be exposed to personal liability for loss – as may the directors. The focus has therefore shifted from whether it is permissible to consider climate change risk to whether, as a prudent fiduciary investor, with a long term investment horizon, you can afford to ignore it.'<sup>8</sup>

There are publications available to help understand fiduciary responsibilities with regard to climate risk for charity trustees.<sup>42,43</sup> There are also separate legal opinions and advice guides for pension fund trustees regarding fiduciary duty in the context of climate change.<sup>44,45</sup>

### Box 2: The Berlin Doctors Pension Fund (BAV)

The Berlin Doctors Pension Fund owns over €7.3 billion in assets. The fund managers have taken sustainability into consideration since 2006, when their investment guidelines were amended to include consideration of environmental, social and governance (ESG) risks. The BAV's sustainability manager is BMO Global Asset Management who are a large asset manager with operations around the world.

BMO created a Responsible Engagement Overlay to demonstrate commitment to management of ESG risks. This has been reinforced more recently with adoption of the UN Principles of Responsible Investment (UNPRI), and a commitment to act in the long-term interest of their members. In December 2015 the BAV adopted a sustainability directive, which covers the whole of the investment process. The BAV takes a positive approach to sustainable investing, and until recently kept the investable universe unrestricted in order to enable diversification. However, a review of sustainable investment processes led to a decision that an asset class can be sanctioned where it may have a negative impact on the pensions of the insured community.

Divestment is the final sanction, and last year CO<sub>2</sub> intensive assets were the first, and only, asset class added to the exclusion list following the Paris climate agreement. The view is that the business model is obsolete and fossil fuel investments are losing value over the long-term given the global commitment to limit emissions in line with 2°C global warming.

BMO Global Asset Management are advising on the divestment process. All investments are in pooled funds, and so far 40 companies, that derive more than 25% of revenue from coal mining or coal fired power generation, have been divested. These 40 companies represent 1% of the total shareholdings of BAV. The divestment process is ongoing, and the asset managers are seeking to refine their filter for carbon intensive assets ahead of a further round of divestments in June 2017.

# The Divestment Process

As the case studies demonstrate, there is no definitive divestment process, but instead a number of steps to take to inform a new investment policy. There now exist a range of publications by investment advisors and managers that provide a more detailed insight into the divestment and investment process to mitigate climate change.<sup>5,46,47,48,49</sup> This guide does not go into the same depth as those reports and we recommend further reading, however below we outline the steps to take.

## 1. Consultation: Aims and Motivations

As with any factor affecting asset prices, those with investment responsibility need to integrate climate change risk into the management of their portfolio. However, over and above this, climate change also raises moral and reputational issues that need to be considered and consulted on. There have been numerous requests made by health professionals to see their professional bodies divest, but there has yet to be a formal consultation process. Divestment can be a sensitive issue as reactions are often emotional and political rather than science-based, so clear communication is required to reach a shared understanding before proceeding.

## 2. Financial Needs Analysis

Portfolios are constructed from different types of assets to meet future liabilities, and any of these may be exposed to climate risk, not only equities. Climate change requires that portfolios are positioned to find upside and avoid downside risks, whether action to curb climate change is forthcoming or delayed. It is important to first establish the fund's current exposure to climate risk, before exploring how to mitigate this.

It is now possible to undertake a carbon footprint analysis of a portfolio: to determine current exposure to fossil fuel reserves, the carbon intensity of the portfolio, as well as exposure to low carbon opportunities such as renewables and clean technology. The Montréal Pledge provides a global guide to a wide range of specialist carbon footprinting services.<sup>50</sup>

Meanwhile exposure to the fossil fuel industry is not always as obvious as exposure to fossil fuel reserves would suggest. For example, the Australian company Aurizon doesn't extract fossil fuels or generate electricity from them but it makes 75% of its turnover from the transportation of coal. It is clear to anyone this company will face a serious threat to its business model if it does not adapt and that exposure also needs to be assessed.

## 3. Consider Divestment Options

There are multiple divestment solutions that suit different types of organisations, as evidenced by the case studies. There are also 'discrete' milestones that can be reached along the way. Each organisation has its own requirements, and whilst divest-invest sounds prescriptive there is flexibility in how goals are met. When choosing between the below options, it is worth also considering how divestment or decarbonisation may reinforce or strengthen both the remit of the organisation, and the current investment strategy and risk assessment approach.

The divestment process may involve considering a combination of the options described below.

### Extensive Divestment

There are many other sectors in which investments may be a concern to health professionals, such as tobacco, sugar, alcohol, junk food and controversial weapons. There may therefore be separate demands to divest from multiple sectors. However, if the divestment net is extensive it is challenging to retain the benefits of diversification, and unfortunately for many of these sectors there is not the strong financial case that exists for fossil fuels. Nevertheless, even without a financial case it is often possible to undertake limited divestment from across a range of sectors without having a discernible impact on risk and return.

### Divestment Based on Revenue Thresholds

Understanding the amount of revenue generated from fossil fuels for any stock held is vital to undertaking a divestment process, and is the main way to balance the risks of being invested in fossil fuel companies against diversification risk. Most investors (without knowing it) are already divested from all companies that derive more than 80% of their turnover from coal and tar sands. Much of the analytical work required to enable a revenue threshold based divestment process has already been undertaken.<sup>51,52</sup> Other frameworks also exist to enable asset owners to assess their exposure and consider how to mitigate the risks.<sup>48,53,54,55,56</sup>

The appendix contains details of some of the existing funds that use energy generation and/or revenue-based criteria to set investment thresholds.

Other considerations when pursuing thresholds-based divestment include deciding:

- Which asset classes to apply the policy to, e.g. reducing the carbon footprint across the whole portfolio, for example equities, property, bonds, infrastructure, sovereign and corporate debt.
- Whether to hedge risks
- Whether to apply specific sector or company weightings<sup>45</sup>

### Engagement and Responsible Investment

Engagement is a responsibility of asset owners, but is not a solution to climate change without the simultaneous threat of divestment. While there is significant evidence that engagement can influence companies to change how they operate, there is little or no evidence that it can convince a company to completely change its business model. It is therefore possible to expect engagement to play a role in encouraging electricity generation companies to switch from coal and gas to renewables, but unrealistic to expect engagement to transform fossil fuel extraction companies into renewable energy technology companies.

ShareAction's 2017 report on engagement outlines questions that should be asked of banks regarding attitude and approach to climate risk, and many of these same questions should be asked of investment managers' engagement practices.<sup>57</sup>

#### Box 3: The Canadian Medical Association (CMA)

The CMA is the national representative body for physicians in Canada. It has the lowest assets under management of the case studies presented with US\$10m invested in long-term (35 year) investments.

The Association took the decision to divest in 2015, and completed the whole process within a year under the guidance of MSCI and Sustainalytics. In order to achieve this the CMA merged three equity funds (US, Canadian and Rest of World) into one global equity fund. A global mandate was given to the Association's investment managers Comgest in Paris, and AGScapital in order to allow as much freedom as possible despite restrictions. The fossil free criteria restrict investments in any company whose primary business is the manufacture or transportation of fossil fuels. Additional exclusion criteria include tobacco and controversial weapons.

A further criterion is that 10% of the fund is allocated to opportunistic investments in energy efficiency technology, e.g. air conditioning solutions, Shimano bikes, LED lighting companies.

The managers also created a separate divested fixed income fund. Distinctively, the CMA fund is also available to individual members to invest in as well. The Finance Director of the CMA has suggested that UK investors could also buy into the funds created.

## 4. Choose Investment Advisors, Managers and Funds

Many fund managers and financial advisors/consultants take a short-term view of investments based on their experience, rather than looking at the medium to long term future. As has been proved time and again for investing generally, “*past performance does not predict future performance.*” However, there are now a range of good consultants, advisors and managers to select from who understand the need to balance shorter and longer term climate risks, the needs of different stakeholders, and who provide frameworks to establish goals and implement them.<sup>16-18</sup>

You will need to assess whether your current investment service providers have sufficient expertise, resources and interest to support your decision to divest from fossil fuels and invest in climate solutions, or whether additional expertise is required. The AEGN briefing provides a list of questions that could be asked of current and potential investment managers in assessing their suitability for handling the divestment process.<sup>8</sup>

Finally, we advise caution with investment advisors and fund managers when discussing diversification risk: they are invariably not talking about your risk but their risk relative to a benchmark index such as the FTSE 100. This is relatively easy to quantify, but does not automatically match the risks faced by investors, such as, paying a pension in 30 years’ time.

## 5. Be Transparent

Transparency is important for public bodies with a high profile and reputation that needs to be protected. Demonstrating leadership through aligning members’ interests to prudent risk management and a mission sends a highly credible message to the market, regulators and public. This links back to the importance of asset holders signaling to governments and regulators that they want to avoid the inaction risk outlined above. The added value of being transparent is that it demonstrates leadership at a time when there is great uncertainty regarding the future of global efforts to mitigate climate change.

### Box 4: HCF Health Insurance, Australia

HCF is an Australian health insurer with 1.5 million members, and the first to commit to divesting fossil fuels. The rationale it has given is that it cannot keep funding an industry that is endangering its members health. The fund holds AUS\$1.39 billion in equities through an investment trust with investment firm JANA, and will divest 1 per cent of that, or \$14 million, from fossil fuel holdings.

HCF decided to sell after a review of its international investment portfolio last year. The fund will have divested its international fossil fuel investments by March 2017, and will then seek to do the same with domestic investments.

## Conclusion

Given recent world events this is a critical time for strong leadership to be demonstrated by public bodies, particularly with regard to climate change.

This short guide is intended to help address questions of feasibility of divestment. For further information about some of the currently available funds which use a revenue and/or generation based approach to divestment please see the appendices. We ask that if you would like to discuss further do contact the advisors listed, or contact Medact and we would be happy to arrange a meeting.

## Appendices

See the following pages 16-22 for summaries of climate-risk adjusted funds currently available with:

L&G - The Future World Fund

AT - Sustainable Future Fund

Wheb - Sustainability Fund

(accurate as of January 2017)

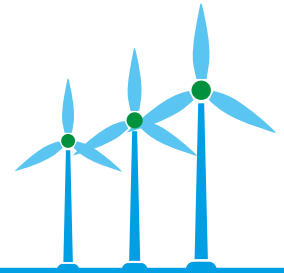
## Endnotes

- 1 Medact and partners, 2015, *Unhealthy Investments, Fossil Fuel Investment and the UK Health Community*, available at: <http://fossilfreehealth.org/resources/unhealthy-investments-report/>
- 2 Watts N, Adger WN, Ayeb-Karlsson S, et al. The Lancet Countdown: tracking progress on health and climate change. *The Lancet*. 2017;389(10074):1151-1164. doi:10.1016/S0140-6736(16)32124-9.
- 3 UK Committee on Climate Change, 2016, UK Climate Action Following the Paris Agreement. Available at: <https://www.theccc.org.uk/wp-content/uploads/2016/10/UK-climate-action-following-the-Paris-Agreement-Committee-on-Climate-Change-October-2016.pdf>
- 4 Carney, M, 2015, *Breaking the tragedy of the horizon - climate change and financial stability*. Speech given at Lloyds of London, 29 September 2015, at: <http://www.bankofengland.co.uk/publications/Pages/speeches/2015/844.aspx>
- 5 Arabella Advisors, 2016, *Measuring the Growth of the Global Fossil Fuel Divestment and Clean Energy Investment Movement*, at: <https://www.arabellaadvisors.com/wp-content/uploads/2016/10/Measuring-the-Growth-of-the-Divestment-Movement.pdf>
- 6 Australian Environmental Grantmaker Network (2016) *Divest Invest Philanthropy Guide*, at: <https://static1.squarespace.com/static/56b9610959827eedd599de12/t/585a071de58c625687f77f94/1482295105436/DI-Philanthropy-Email-spreads.pdf>
- 7 Bloomberg New Energy Finance (2016) *Sustainable Energy in America Factbook*. at: <https://data.bloomberglp.com/bnef/sites/4/2016/02/BCSE-2016-Sustainable-Energy-in-America-Factbook.pdf>
- 8 Costello A, Abbas M, Allen A, et al. Managing the health effects of climate change. *The Lancet*. 2009;373(9676):1693-1733. doi:10.1016/S0140-6736(09)60935-1.
- 9 Watts N, Adger WN, Agnolucci P, et al. Health and climate change: policy responses to protect public health. *The Lancet*. 2015;386(10006):1861-1914. doi:10.1016/S0140-6736(15)60854-6.
- 10 Whitmee S, Haines A, Beyrer C, et al. Safeguarding human health in the Anthropocene epoch: report of The Rockefeller Foundation–Lancet Commission on planetary health. *The Lancet*. 2015;386(10007):1973-2028. doi:10.1016/S0140-6736(15)60901-1.
- 11 Åström C, Orru H, Rocklöv J, Strandberg G, Ebi KL, Forsberg B. Heat-related respiratory hospital admissions in Europe in a changing climate: a health impact assessment. *BMJ Open*. 2013;3(1):e001842. doi:10.1136/bmjopen-2012-001842.
- 12 Shaposhnikov D, Revich B, Bellander T, et al. Mortality Related to Air Pollution with the Moscow Heat Wave and Wildfire of 2010. *Epidemiol Camb Mass*. 2014;25(3):359. doi:10.1097/EDE.000000000000090.
- 13 Kessler RC, Galea S, Gruber MJ, Sampson NA, Ursano RJ, Wessely S. Trends in mental illness and suicidality after Hurricane Katrina. *Mol Psychiatry*. 2008;13(4):374-384. doi:10.1038/sj.mp.4002119.
- 14 Bouzid M, Colón-González FJ, Lung T, Lake IR, Hunter PR. Climate change and the emergence of vector-borne diseases in Europe: case study of dengue fever. *BMC Public Health*. 2014;14:781. doi:10.1186/1471-2458-14-781.
- 15 Ostfeld RS. Biodiversity loss and the ecology of infectious disease. *Lancet Planet Health*. 2017;1(1):e2-e3. doi:10.1016/S2542-5196(17)30010-4.
- 16 Foresight Team. *Migration and Global Environmental Change: Final Project Report*. London: Government Office for Science; 2011. <https://www.gov.uk/government/publications/migration-and-global-environmental-change-future-challenges-and-opportunities>.
- 17 Dangour AD, Mace G, Shankar B. Food systems, nutrition, health and the environment. *Lancet Planet Health*. 2017;1(1):e8-e9. doi:10.1016/S2542-5196(17)30004-9.
- 18 Hsiang SM, Burke M, Miguel E. Quantifying the Influence of Climate on Human Conflict. *Science*. 2013;341(6151):1235367. doi:10.1126/science.1235367.
- 19 Haines A. Health co-benefits of climate action. *Lancet Planet Health*. 2017;1(1):e4-e5. doi:10.1016/S2542-5196(17)30003-7.
- 20 Bhattacharyya SC. Energy Access Programmes and Sustainable Development: A critical review and analysis. *Energy Sustain Dev*. 2012;16(3):260-271. doi:10.1016/j.esd.2012.05.002.
- 21 Aleksandrowicz L, Green R, Joy EJM, Smith P, Haines A. The Impacts of Dietary Change on Greenhouse Gas Emissions, Land Use, Water Use, and Health: A Systematic Review. *PLOS ONE*. 2016;11(11):e0165797. doi:10.1371/journal.pone.0165797.
- 22 Haines A, Dora C. How the low carbon economy can improve health. *BMJ*. 2012;344(mar 19 1):e1018-e1018. doi:10.1136/bmj.e1018. Oreskes N, Conway EM, 2012, 17., I Initiative, 2015, available at:
- 23 Jarrett J, Woodcock J, Griffiths UK, et al. Effect of increasing active travel in urban England and Wales on costs to the National Health Service. *Lancet*. 2012;379(9832):2198-2205. doi:10.1016/S0140-6736(12)60766-1.
- 24 Oreskes N, Conway EM. *Merchants of Doubt: How a Handful of Scientists Obscured the Truth on Issues from Tobacco Smoke to Global Warming*. London: Bloomsbury; 2012.
- 25 Moody's, 2015, *Moody's: Credit impact from environmental issues varies widely across sectors globally*. Available online at: [https://www.moody's.com/research/Moodys-Credit-impact-from-environmental-issues-varieswidely-across-sectors--PR\\_339980](https://www.moody's.com/research/Moodys-Credit-impact-from-environmental-issues-varieswidely-across-sectors--PR_339980)
- 26 NASA, 2016, *The consequences of climate change*. Available at: <http://climate.nasa.gov/effects/>

- 27 Covington H and Thamotheeram R, 2015, *The case for forceful stewardship*. Available online at: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2551478](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2551478)
- 28 Dietz S, Bowen A, Dixon C and Gradwell, P, 2016, 'Climate value at risk' of global financial assets. *Nature*. Available online at: <http://www.nature.com/nclimate/journal/v6/n7/full/nclimate2972.html>
- 29 Task Force on Climate-Related Financial Disclosures, 2016, *Our Mission*, at: <https://www.fsbtcfd.org/>
- 30 Carbon Tracker, 2017, *Key Terms*, at: <http://www.carbontracker.org/resources/>
- 31 Carbon Tracker Initiative, 2015, *Climate science: How much fossil fuel can we exploit?* at: <http://www.carbontracker.org/news/climatescience-how-much-fossil-fuel-can-we-exploit-carbontrackers-comment-on-ucl-study/>
- 32 Oil Change International (2016). *The Sky's Limit*. Available online at: [http://priceofoil.org/content/uploads/2016/09/OCI\\_the\\_skys\\_limit\\_2016\\_FINAL\\_2.pdf](http://priceofoil.org/content/uploads/2016/09/OCI_the_skys_limit_2016_FINAL_2.pdf)
- 33 Carbon Tracker and Grantham Institute Imperial, 2017, *Expect the Unexpected* available at: <http://www.carbontracker.org/report/expect-the-unexpected-disruptive-power-low-carbon-technology-solar-electric-vehicles-grantham-imperial/>
- 34 IEA and UNEP, 2016, *IEA raises its five year renewable growth forecast*, available at: <https://www.iea.org/newsroom/news/2016/october/iea-raises-its-five-year-renewable-growth-forecast-as-2015-marks-record-year.html>
- 35 Frankfurt School and UNEP (2016). *Global Trends in Renewable Energy Investments 2016*, at: <https://www.actu-environnement.com/media/pdf/news-26477-rapport-pnue-enr.pdf>
- 36 Carbon Tracker, 2015, *Lost in Transition* available at: [http://www.carbontracker.org/wp-content/uploads/2015/10/Lost-in-transition\\_Clean\\_Draft.pdf](http://www.carbontracker.org/wp-content/uploads/2015/10/Lost-in-transition_Clean_Draft.pdf)
- 37 World Resources Institute (WRI) and United Nations Environment Programme Finance Initiative (UNEP-FI), 2015, *Carbon Asset Risk: Discussion Framework*, available at: [http://www.unepfi.org/fileadmin/documents/carbon\\_asset\\_risk.pdf](http://www.unepfi.org/fileadmin/documents/carbon_asset_risk.pdf)
- 38 Our Children's Trust, 2016, *Landmark US Federal Climate Lawsuit*, at: <https://www.ourchildrenstrust.org/us/federal-lawsuit/>
- 39 Historic lawsuit filed against arctic oil, Press Release, Greenpeace, 18 Oct 2016 Available at: <http://www.greenpeace.org/international/en/press/releases/2016/lawsuit-arctic-oil-norway-historic/>
- 40 'Chevron warns it could face climate change lawsuits with future oil drilling potentially 'economically infeasible' Independent, 3 March 2017 available at: <http://www.independent.co.uk/environment/chevron-oil-warn-climate-change-lawsuits-drilling-greenhouse-emissions-economically-infeasible-a7609411.html#commentsDiv>
- 41 Bates Wells Braithwaite, 2015, *Opinion of Christopher McCall QC on Ethically Questionable Investments: A Summary for Trustees*, available at: <http://www.bwbllp.com/file/summary-and-opinion-pdf>
- 42 UN Environment Programme Financial Initiative, 2015, *Fiduciary Duty in the 21st Century*, at: [http://www.unepfi.org/fileadmin/documents/fiduciary\\_duty\\_21st\\_century.pdf](http://www.unepfi.org/fileadmin/documents/fiduciary_duty_21st_century.pdf) *current and future nd resulting s available at: ent. apply this to icy to, nt and potential investment managers in assessing the*
- 43 The Law Commission, 2014, *Fiduciary Duties of Investment Intermediaries*, at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/325509/41342\\_HC\\_368\\_LC350\\_Print\\_Ready.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/325509/41342_HC_368_LC350_Print_Ready.pdf)
- 44 The Pensions Regulator, 2016, *A Guide to Investment Governance*, at: <http://www.thepensionsregulator.gov.uk/docs/draft-dc-investment-guide-2016.pdf>
- 45 Bryant K QC, 2016, *The legal duties of pension fund trustees in relation to climate change*, at: <http://www.documents.clientearth.org/wp-content/uploads/library/2016-12-02-the-legal-duties-of-pension-fund-trustees-abridged-opinion-ext-en.pdf>
- 46 Blackrock, 2016, *Adapting Portfolios to Climate Change*, available at: <https://www.blackrock.com/investing/insights/blackrock-investment-institute/climate-change>
- 47 DivestInvest, 2016, *Doing Good, Performing Better* at: [http://divestinvest.org/philanthropy/wp-content/uploads/sites/3/2016/01/12.22\\_Divest-Invest-Brief\\_web2.pdf](http://divestinvest.org/philanthropy/wp-content/uploads/sites/3/2016/01/12.22_Divest-Invest-Brief_web2.pdf)
- 48 Mercer, 2016, *Investing In A Time Of Climate Change*, at: <https://www.mercer.com/content/dam/mercer/attachments/global/investments/mercer-climate-change-report-2015.pdf> *current and future nd resulting s available at: ent. apply this to icy to, nt and potential investment managers in assessing the*
- 49 MSCI, 2016, *Fossil Fuel Divestment: A Practical Introduction*, at: <https://www.msci.com/www/research-paper/fossil-fuel-divestment-a/0471389508>
- 50 Montreal Pledge website: <http://montrealpledge.org/>
- 51 Robecco Sam, 2015, *Investing in response to climate change* available at: [http://www.robecosam.com/images/Investing\\_in\\_response\\_to\\_climate\\_change.pdf](http://www.robecosam.com/images/Investing_in_response_to_climate_change.pdf) viewed: 30/01/201714.
- 52 Carbon Tracker Initiative, at <http://www.carbon-tracker.org/>
- 53 Two Degrees Investing Initiative, 2016, *Studies*, at: [http://2degrees-investing.org/#!/page\\_Resources](http://2degrees-investing.org/#!/page_Resources)
- 54 Carbon Delta, 2016, *Comprehensive Climate Change Risk Management*, at: <http://www.carbon-delta.com/>
- 55 Sustainability Accounting Standards Board, 2017, *Accounting for a Sustainable Future*, at: <https://www.sasb.org/>
- 56 Global Reporting Initiative, 2017, *Discover GRI*, at: <https://www.globalreporting.org/Pages/default.aspx>
- 57 Share Action, 2017, *Banking on a Low Carbon Future An Investor Guide for Engaging with Banks on Climate Change*, at [https://shareaction.org/wp-content/uploads/2017/02/Banking-on-Low-Carbon\\_ShareAction.pdf](https://shareaction.org/wp-content/uploads/2017/02/Banking-on-Low-Carbon_ShareAction.pdf)

# The Future World Fund

Investing for the world you want to live in



**The Future World Fund targets better risk-adjusted equity returns than a traditional index strategy. It also incorporates a climate 'tilt' to address the investment risks associated with climate change.**

Aiming to provide better risk-adjusted returns over the long term	Responding to climate change risk	Influencing change in a positive way
<p>The Fund invests using an alternatively weighted index. This index weights constituents according to certain 'factors' or attributes, rather than according to their size as with a traditional market-capitalisation index. These alternative weights or 'tilts' provide the potential for improved risk-adjusted returns.</p>	<p>As the transition to a low carbon economy continues, companies that fail to respond to these changes present a risk to your portfolio. The Fund aims to capture this transition by having a lower exposure to companies with worse-than-average carbon emissions and fossil fuel assets, and higher exposure to companies that generate revenue from low carbon opportunities.</p>	<p>The Fund incorporates LGIM's Climate Impact Pledge, a targeted engagement process where we will work directly with the companies we invest in to bring about positive change. We do this by encouraging them to build strong governance practices and strategies that will help them to be successful over the long term. Companies that don't meet minimum criteria will be excluded from the Fund if proactive engagement does not bring about positive change.</p>

## EFFECTIVELY MANAGING YOUR CLIMATE CHANGE RISK

The Future World Fund tracks an index that aims to incorporate the long-term transition towards a low carbon economy. Climate change presents a series of material risks to certain companies' future earnings through regulatory restrictions, taxes on carbon emissions and technological advances that threaten incumbent business models.

The Fund's 'climate tilt' is an innovative approach to selecting investments within specific sectors. It reduces exposure to companies with worse-than-average carbon emissions and fossil fuel assets, while increasing exposure to those which are successfully generating revenue from the green transition.

The Fund has been created to respond to our clients' concerns over the risks associated with climate change. It also provides an opportunity for investors to take advantage of the transition to a low carbon economy, and finance the future they want to live in.

## FACTOR-BASED TILTS AND THE POTENTIAL FOR BETTER RISK-ADJUSTED RETURNS OVER THE LONGER TERM

Academic research\* has shown that we can 'tilt' a traditional market capitalisation weighted index according to the following four factors, that have been selected with the aim of adding value.

<p><b>Value:</b> Stocks that are 'cheap' or trading at a discount to their fair value based on company financial data</p>	<p><b>Low volatility:</b> Stocks that have exhibited more stable stock market prices over time</p>
<p><b>Quality:</b> Stocks with strong, sustainable returns characterised by high profitability and low debt levels</p>	<p><b>Size:</b> Smaller companies, that have historically outperformed larger companies</p>

The Future World Fund retains the transparency and cost effectiveness of a conventional index fund, but also provides the opportunity to enhance investment returns by incorporating these factor tilts. Please note that the factor mix may change over time. We ensure that the factors are relevant to the longer-term time horizon of investors in the Fund.

\* Sources of academic research are available on request.



**ENGAGEMENT WITH IMPACT TO DRIVE LONG-TERM CHANGE**

**LGIM's Climate Impact Pledge:**

“To engage with the world’s largest companies that are required to adapt their business models and drive innovation in order to meet the global climate change goals. LGIM commits to encourage and accelerate the transition to a low carbon economy for the long-term benefit of all companies and their investors.”

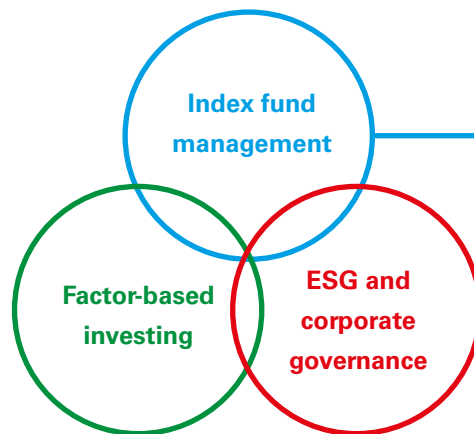
**How the pledge works:** LGIM believes that the engagement process should have real consequences. Through our research, LGIM identifies some of the largest companies that are critical to the shift to a low-carbon economy, and ranks them against criteria such as commitment to the low carbon transition, board composition, strategy and transparency. LGIM commits to engage with them to improve their ranking and help them strive to be the best in their sectors.

Companies that consistently fail to meet our minimum expectations will be eventually excluded from the Fund. This approach can be a powerful tool to drive better company behaviour and raise standards across the market.

**FUND ADVISORY BOARD**

To future-proof the Fund, LGIM has appointed an Advisory board consisting of both LGIM employees and independent members who are responsible for:

- Providing informed and expert advice to the Fund
- Ensuring the Fund remains representative of clients’ needs
- Acknowledging changing markets with regards to factor-based investing and best practices in corporate governance



**WHY LGIM?**

- As the largest manager of institutional assets in the UK<sup>1</sup>, LGIM has significant experience in index fund management and factor-based investing, alongside a firm commitment to corporate governance issues.
- Tenth largest asset manager worldwide<sup>1</sup>, with £842 billion of assets under management<sup>2</sup>.
- A leader in index fund management: We are one of the largest global providers of index funds, with over £300bn AUM<sup>3</sup>.
- Expertise in factor based investing: We run over £25bn<sup>3</sup> across 20 different factor based strategies, and have been running funds against alternatively-weighted indices for over a decade.
- ESG and corporate governance focus: LGIM has shown industry leadership on ESG issues. We use our scale to influence company behaviour on behalf of our clients, striving to achieve positive financial and societal impacts through our investments.

1. Source: IPE Research 2016

2. Source: LGIM internal data as at 30 June 2016. These figures include assets managed by LGIMA, an SEC Registered Investment Advisor. Data includes derivative positions.

3. as at 30 June 2016

For further information, please visit the website: [www.lgim.com/futurefund](http://www.lgim.com/futurefund)

**Important Information**

**The value of an investment and any income taken from it is not guaranteed and may down as well as up.**

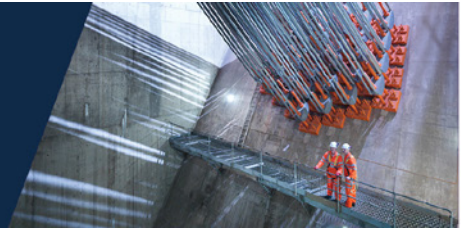
This document is designed for the use of professional investors and their advisers. No responsibility can be accepted by Legal & General Investment Management Limited or contributors as a result of information contained in this publication. Specific advice should be taken when dealing with specific situations. The views expressed here are not necessarily those of Legal & General Investment Management Limited and Legal & General Investment Management Limited may or may not have acted upon them. This document may not be used for the purposes of an offer or solicitation to anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

© 2016 Legal & General Investment Management Limited. All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording, without the written permission of the publishers.

Legal & General Investment Management Ltd, One Coleman Street, London, EC2R 5AA

Authorised and regulated by the Financial Conduct Authority.

M1154



January 2017

## **/Credible investment approaches exist for fossil fuel divestors**

### **/Divestment movement**

To make your funds more resilient to regulations that are designed to combat climate change, involves more than simply divesting from fossil fuels. Our Sustainable Future funds offer investors fossil fuel free, low carbon portfolios, with exposure to the companies that are set to benefit from climate regulation. These funds have delivered competitive investment returns versus conventional peers for over a decade.

The 'Fossil Free' movement calls for asset owners to end their support for the fossil fuel industry, by freezing new investment in fossil fuels (starting with coal and tar sands) and within five years to sell any positions in public equities or corporate bonds. The investment rationale for this is very well articulated in the analysis by Carbon Tracker which concludes that if we are to stay below 2°C of warming, 80% of known fossil fuel reserves need to stay in the ground<sup>1</sup>.

### **/The Sustainable Future fund approach to fossil fuels and exposure to carbon**

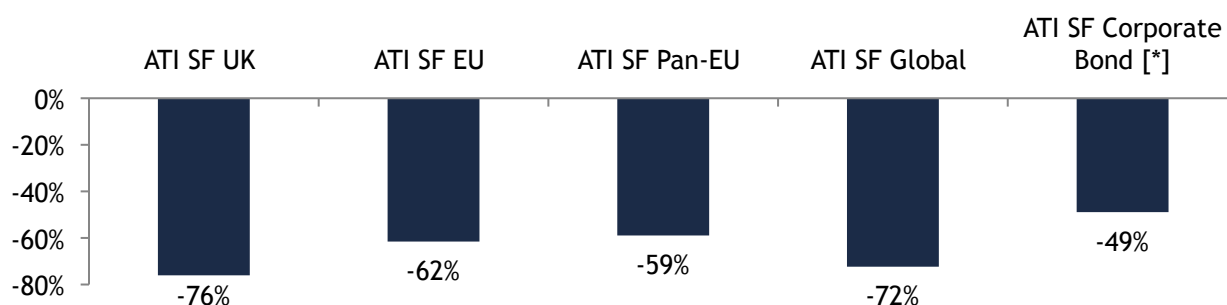
We believe there is more that can be done - over and above divestment. In our Sustainable Future funds we have a three-pronged approach:

- 1) Avoid investment in extraction and production of fossil fuels
- 2) Target low exposure to carbon risk throughout the portfolio
- 3) Focus on companies accelerating the decarbonisation of our economies

### **/Fossil fuel exposure, carbon intensity and exposure to beneficiaries**

We have updated our analysis on how much carbon dioxide is emitted by our funds compared to the markets they invest in. This shows that we continue to emit significantly less CO<sub>2</sub>, on average, emitting 64% less carbon dioxide.

## Carbon Dioxide emissions from Sustainable Future funds are much lower than benchmark



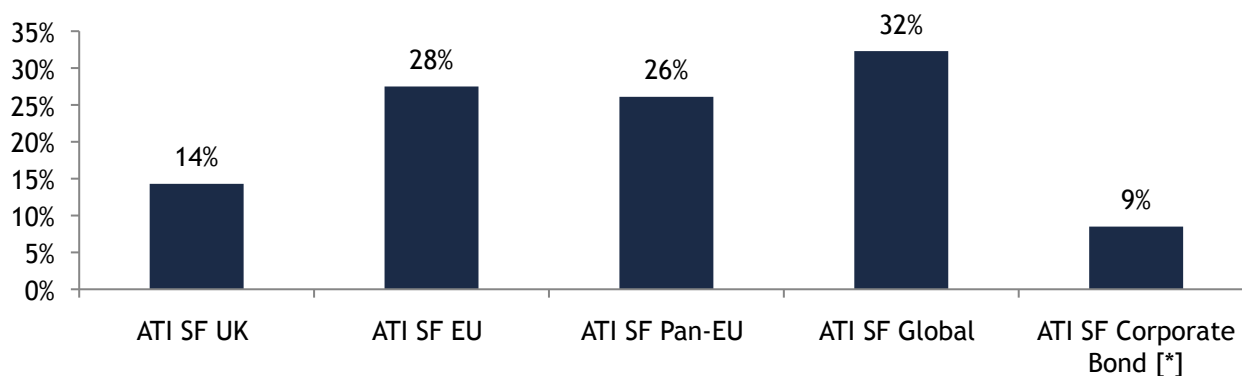
Source: MSCI ESG Carbon Analytics Report 25-Oct-2016

[\*] Corporate Bond fund uses Weighted average carbon intensity as compared to the conventional benchmark. All other equity funds use Total Carbon Emissions for funds relative to their conventional benchmarks.

This is consistent with previous analysis showing that our funds emit relatively low amounts of carbon dioxide. While this kind of analysis has some shortcomings, (for example, it does not capture the emissions from the use of products or services the companies provide), it is a useful starting point for investors to see how funds compare on CO2 emissions.

Analysis, by MSCI ESG Carbon Analytics, also estimates that the funds have between 9% and 32% of the fund invested in clean technology solutions, which are used for combating climate change.

## Clean technology solutions (% of portfolio)



Source: MSCI ESG Carbon Analytics Report 25-Oct-2016

The Sustainable Future funds have no direct exposure to fossil fuels extraction. In addition, these funds do not invest in industries closely linked into the fossil fuel supply chain, where carbon risks are high. For example the funds exclude car manufacturers (except for companies making components to increase fuel efficiency or car safety) and they exclude airlines, where fuel is a significant cost that is subject to carbon surcharges.

We construct our portfolios from the bottom up, based on fundamental analysis to identify well managed companies which are beneficiaries of structural changes. We believe that getting these elements right in an investment, maximises the chances of generating competitive investment returns.

## /Investment performance implications of exclusions

There is both a legitimate investment rationale to avoid carbon intensive companies and an ethical one. Fossil fuel investments are at risk from global regulations brought in to reduce carbon emissions and accelerate substitution away from fossil fuels to lower carbon alternatives. Companies that extract and

process fossil fuels are more at risk from climate regulations than the market as a whole. So as we shift towards a lower carbon economy, these fossil fuel investments could be overvalued and therefore will be likely to deliver worse investment returns than the market over the medium to long-term.

Given this challenging longer term outlook, portfolios without exposure to fossil fuels could generate better investment returns than the market. That said, fluctuations in commodity prices (which drive investment returns for the fossil fuel industries) can create shorter term performance headwinds for fossil free funds when commodities rally. This is most pronounced in the UK equity market which has an extraordinarily large proportion of the benchmark made up by fossil fuel companies. These shorter term headwinds are less pronounced in Global and European stock markets where fossil fuels represent a smaller proportion of the benchmark. Over time we do not believe these exclusions will dominate investment performance.

We believe that constraining a reactive conventional fund manager to not invest in fossil fuels is unlikely to deliver as good an investment outcome, as a proactive fund manager using a more thorough approach of divestment by investing in solution providers as well as looking at a company's management across the whole portfolio.

## /Sustainable Future have delivered strong investment performance

Our Sustainable Future funds are resilient to climate change regulation and have delivered competitive investment returns versus conventional competitors investing in the same markets.

Quartile Rankings to 30/12/2016	Peer Groups	3 years	5 years	10 Years
Sustainable Future UK Growth	IA UK All Companies	2	2	2
UK Ethical	IA UK All Companies	2	2	3
Sustainable Future Managed	IA Mixed 40% - 85% Equities	2	1	2
Sustainable Future Global Growth	IA Global Equities	3	3	3
Sustainable Future Absolute Growth	IA Flexible Investments	2	1	1
Sustainable Future Corporate Bond	IA Sterling Corporate Bond	2	1	2
Sustainable Future European ex UK	IA Europe ex UK	2	2	2

Source: Financial Express, as at 30/12/2016, unit price return, net of management fees, expressed in GBP. SF Defensive Managed Fund and SF Cautious Managed Fund launched in July 2014. Past performance is not a guide to future performance.

Five out of seven of our funds (71%) have delivered first or second quartile investment performance (above the conventional peer group median) over a ten year period; six out of seven funds (86%) have delivered first or second quartile investment performance (above the conventional peer group median) over five year and three year periods ending 31-Dec-2016.

These funds are proactively managed to benefit from the numerous investment opportunities that arise from the challenges we face when making economic development less damaging to society. These investment opportunities include combating climate change as well as a broad range of other structural trends we see taking place over the next decade. We think these trends provide positive investments which are likely to deliver strong investment returns - as they have done in the Sustainable Future fund range for more than a decade.

## /Risk information

Investments can go down as well as up. Investors may get back less than they originally invested. For investment professionals only. This document should not be communicated to, or relied on by, retail investors. Past performance is not a guide to future performance.



## Ted Franks, Fund Manager for the FP WHEB Sustainability Fund, reviews the investment process and how we invest to create a low carbon, resilient and sustainable portfolio

### COMPANY OVERVIEW

WHEB Asset Management aims to help responsible investors and clients to contribute towards a more sustainable, resilient and low carbon economy. The whole business has been organised to reflect and embody sustainability principles. Our mission is 'to create prosperity and advance sustainability through positive impact investing'. As such, we are recognised as a sustainability leader by both peers and clients.

The company's mission is applied through our investment philosophy and process, alongside high standards of transparency, accountability and governance in our business; the same attributes that we look for and encourage in our portfolio companies.

We have recently been certified as a B Corporation in recognition of our approach towards aligning our business with the interests of our clients and other stakeholders. As a sustainability leader we have clear advocacy positions to support longer-term and more sustainable capital markets. We have won multiple awards and are highly rated for the depth of our approach towards sustainable investing and governance structures.

### TEAM OVERVIEW

We believe that being a specialist team within an owner-managed boutique allows us to focus on sustainability and gives us a competitive advantage, and just as importantly, allows us to deliver a consistently high quality service to clients.

The team is one of the most experienced and well-resourced in the sector, having run sustainable investment strategies at established institutional managers before coming together at WHEB Asset Management. Overall, the boutique is managed as

a close-knit team with operational, business development and client relationship teams supporting our investors.

### INVESTMENT TEAM

The partners George Latham (Managing Partner), Ted Franks (Fund Manager) and Seb Beloe (Head of Research) have spent almost all of their careers in sustainability, and have worked together at WHEB for the past five years. The investment team is completed by experienced analysts Ty Lee and Ben Klufftinger.

The team is supported by Non-Executive Chairman, Geoff Hall, who has 38 years of institutional fund management experience, and our external Investment Advisory Committee, comprised of some of the most senior and experienced figures in sustainable finance.

### FUND OVERVIEW

The FP WHEB Sustainability Fund is a long-only global equities strategy focused on investing in companies that are solving sustainability challenges. The fund is rated by Morningstar OBSR and is managed by one of the most experienced teams in the sector.

### INVESTMENT PHILOSOPHY

The investment philosophy of the fund is built around sustainability, growth, quality and valuation. The fund is focused on nine sustainable investment themes; five environmental (cleaner energy, environmental services, resource efficiency, sustainable transport and water management) and four social themes (education, health, safety and well-being). Individual stocks are selected through a rigorous 'bottom-up' stock-by-stock fundamental research process.



## FUND CHARACTERISTICS

Overall, the Fund is well-diversified across the nine investment themes and invests globally. The Fund aims to have consistent Mid-Cap, Growth and Quality style characteristics as a result of a structured investment process that aims to capture the most positive impacts of the sustainable growth theme, within the framework set below.

### Sustainable growth

The fund is focused entirely on companies providing solutions to sustainability challenges.

We add value through our understanding of sustainability themes, new technologies and business models as well as through individual stock selection based on insights into companies in our portfolio. Focusing on companies that provide solutions to structural environmental and social pressures creates an investment universe with superior growth prospects.

From this universe we invest in themes and companies with both high quality and growth characteristics that are often under-appreciated by the broader market.

### Quality

High quality companies are more likely to capture growth opportunities because they are well managed. We believe that a company's environmental, social and governance (ESG) profile is an important indicator of management quality.

Our research combines ESG with traditional financial analysis that gives us better insights into a company's growth potential and risk profile. Engaging with companies and challenging them on a range of ESG issues adds to our knowledge and understanding of a company as well as addressing important environmental and social issues.

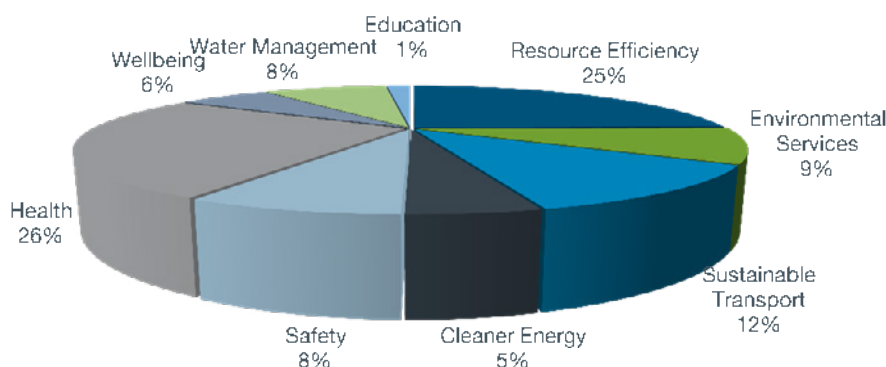
### Valuation

Valuation is a discipline that helps us to determine what the appropriate price is for a company and this is the last phase in the investment process.

The fund style is best described as quality, sustainable 'growth at the right price' (GARP).

We use a range of valuation techniques, both on an absolute basis and relative to a global peer group of comparable companies. A historic view helps us assess the range of valuations over a longer time period and gives perspective.

## FP WHEB Sustainability Fund (by theme)<sup>1</sup>



<sup>1</sup> Source: WHEB 31/12/2016

### Important Notice

This communication has been issued and approved as a financial promotion for the purpose of Section 21 of the Financial Services and Markets Act 2000 by WHEB Asset Management LLP, which is authorised and regulated by the Financial Conduct Authority ("FCA") (FRN: 496413). This communication is indicative in nature and has been prepared for information purposes only. The information is not intended for persons who are retail clients within the meaning of the rules of the FCA. Information contained herein and the data underlying it have been obtained from sources believed by us to be reliable, but no assurance can be given that the information, data or any computations based thereon are accurate, complete or that it will not be subject to future change. Past performance is not indicative of future returns. Investors should consult their own financial, legal, accounting, and tax advisors about the risks associated with these investments. Your capital is at risk and you may lose all the money you invest.





The Grayston Centre  
28 Charles Square  
London N1 6HT  
United Kingdom

T +44 (0)20 7324 4739  
F +44 (0)20 7324 4734  
E [office@medact.org](mailto:office@medact.org)

**[www.medact.org](http://www.medact.org)**

Registered charity 1081097  
Company reg no 2267125

