

# Saxena White in the Community

## ENVIRONMENTAL SUSTAINABILITY

*"We do not face a choice between protecting our environment or protecting our economy. We face a choice between protecting our economy by protecting our environment – or allowing environmental havoc to create economic havoc."*

*- Robert E. Rubin, former U.S.  
Secretary of the Treasury*

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Part 2 of a 3 Part Series on Environmental, Social and Governance Activism. Presented by Saxena White's Diversity and Social Responsibility Committee.

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# Can Investors Make America Green Again?

Investors are turning up the heat on climate change.



Written by  
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Climate-related crises are wreaking havoc on our communities and on the global economy,

and recent political and economic shifts — particularly here in the United States — are threatening progress on these issues at a crucial moment. While several new investor-led initiatives concerning environmental issues are currently underway, some skeptics question whether such forces can maintain their momentum. Even in the face of adversity, however, environmental initiatives haven't wavered.

According to a recent report from Institutional Shareholder Services (ISS), environmental concerns like climate change are beginning to gain real traction with investors.<sup>1</sup> For example: the ever-growing green bond market allows investors to invest in sustainable projects while offering issuers affordable funding for environmentally friendly projects; the EU taxonomy focus on climate change is developing labels for green financial products and funds, and will also underpin disclosure and reporting requirements on environmental activities and risks to provide clarity and transparency to investors; and climate-related shareholder proposals, like increased disclosures related to climate-change risks and emission reduction targets, are garnering widespread media attention. In fact, the majority of shareholder proposals submitted to U.S. companies during the 2018 proxy season were related to environmental and social concerns. And out of the 121 total shareholder proposals dealing with the environment, 90 related to climate change.

Other environmental issues, such as the irresponsible consumption and depletion of natural resources, have led to continued public outcry for companies to better manage sustainability risks. As global leaders continue to focus on how to prevent catastrophic levels of global warming, pressure is mounting on companies to transform their production processes and business models. The automotive industry is a case in point, as many carmakers are announcing a shift to electric vehicles and other alternative-drive technologies.

While it is easy to see the significance of climate change and sustainability in the realm of public policy, past Environmental, Social, and Governance ("ESG") related investment decisions have come under recent scrutiny, casting doubt on the level of importance ESG should have on investment decisions.

To understand this debate, it's essential to know the basics of ESG investments. Responsible investing is widely understood as the integration of ESG factors into investment processes and decision-making. But unlike Socially Responsible Investment ("SRI"), which is based on ethical criteria and uses mostly negative screens (like not investing in alcohol, tobacco or firearms), ESG investing is based on the notion that ESG factors have financial relevance. These factors often include managing resources, preventing pollution, reducing emissions and climate impact, and executing environmental reporting or disclosure. This so-called "sustainable investing" seeks positive returns as well as long-term impacts for society, the environment, and business performance. The question is, how much weight should be given to these hypothetical future impacts?

At the end of last year, CalPERS' newly elected president, Jason Perez, criticized the fund's former president and board for focusing too much on ESG, to the detriment of other investment considerations. In an interview, Perez stated that "CalPERS' social investment focus and lack of returns received a lot of attention [from] labor up and down the state... Everyone noticed the performance and [CalPERS'] desire to concentrate on social issues."<sup>2</sup> Opponents of ESG point to CalPERS exit from some tobacco stocks in 2000, which reduced portfolio returns by \$3 billion from 2001 to 2014. But overall, ESG investments made up just \$3.3 billion of CalPERS' \$178.6 billion global equity portfolio as of December 2018, a relatively small amount given the overall size of the fund.

While certain ESG strategies may fluctuate with the trends (for example, spikes in gun and opioid concerns), ESG investment initiatives focused on climate change and sustainability lay

<sup>1</sup> [https://www.issgovernance.com/file/publications/ISS-ESG\\_Top\\_10\\_ESG\\_Trends\\_for\\_2019/](https://www.issgovernance.com/file/publications/ISS-ESG_Top_10_ESG_Trends_for_2019/)

<sup>2</sup> <https://www.barrons.com/articles/esg-investing-suffers-a-setback-in-california-1541200869>

# Saxena White in the Community



Can Investors Make America Green Again? *continued from previous page*

the ground work for stability and growth. As explained by ISS, growth of “ESG investing is independent of short-term economic or political trends, as by definition sustainability aims at mitigating long-term systematic and idiosyncratic risks.”<sup>3</sup> Companies that are taking a proactive approach to climate change by making changes to their business models now will be better positioned to seize growth opportunities and mitigate losses in the future. Further, initiatives that focus on categorizing, measuring, and disclosing environmental risks and their impacts will play a crucial role in allowing investors to better analyze the data surrounding these issues.<sup>4</sup>

governance and sustainable business practices — the latter including responsible labor, human rights and environmental practices — are fundamental to creating and protecting long-term shareowner value and sustainable economies.<sup>7</sup>

And as Brian Deese of BlackRock, the world’s largest investment management company, reminded investors at the 2018 Investor Summit on Climate Risk, “If you’re not a climate-aware investor, you’re fundamentally not doing your job.”<sup>8</sup>

Additionally, many investors agree that a focus on climate change and sustainability will translate into good returns. In fact, growth in ESG investing accelerated in 2013 and 2014 with the publication of the first studies showing that good corporate sustainability performance is associated with good financial results.<sup>5,6</sup> And BP’s Deepwater Horizon oil spill is the most high-profile recent example of how environmental risks can have meaningful financial consequences, with BP’s share price falling 51% in the 40 days following the spill. Considering these findings, many financial experts say that institutional investors and boards have a fiduciary duty to not only consider, but also promote, ESG factors. For example, Michael Garland, head of corporate engagement for the New York City comptroller, told the Senate banking committee:

As long-term owners, we expect companies to create long-term, sustainable value. We push them to address a range of environmental, social and governance risks that are fundamental to ensuring long-term profitability. This is part of our fiduciary duty as long-term shareowners. We believe sound corporate



Institutional investors were initially reluctant to embrace the concept, arguing that their fiduciary duty was limited to the maximization of shareholder values irrespective of environmental or social impacts, or broader governance issues such as corruption. But with the growing evidence

that ESG issues have financial implications, the tide has shifted. In other words, many market participants now see the integration of ESG data as a key aspect of fiduciary duty, and boards and managers shouldn’t assume that their sole responsibility is to increase returns for shareholders. In many important markets, including the U.S. and the EU, ESG integration is increasingly seen as part of fiduciary duty. In fact, starting October 1, 2019, U.K. pension board trustees will be legally obligated to “explain, in their statement of investment principles, how they take account of financially material considerations, including ESG factors.”<sup>9</sup>

Although sustainability and climate change are current trending topics for investor activism, they are far from new. In fact, in 1989, after the Valdez oil spill, Amoco Corporation shareholders repeatedly filed proxy resolutions requesting adoption of the Valdez principles — ten principles for

<sup>3</sup> *Supra* at 1.

<sup>4</sup> *Supra* at 1.

<sup>5</sup> [https://arabesque.com/research/From\\_the\\_stockholder\\_to\\_the\\_stakeholder\\_web.pdf](https://arabesque.com/research/From_the_stockholder_to_the_stakeholder_web.pdf)

<sup>6</sup> <https://www.forbes.com/sites/georgkell/2018/07/11/the-remarkable-rise-of-esg/#4b980a101695>

<sup>7</sup> <https://www.bloomberg.com/news/newsletters/2018-12-13/proxy-wars-and-the-struggle-for-the-soul-of-capitalism-jpn83co4>

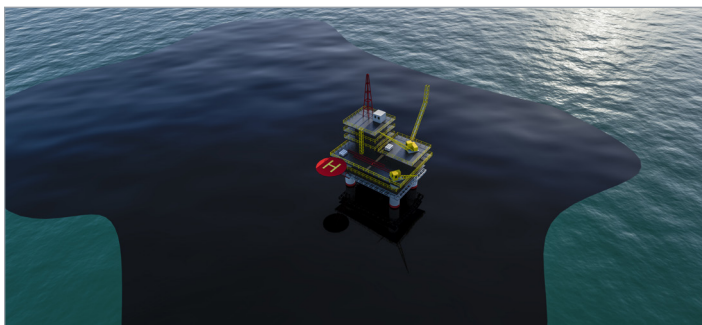
<sup>8</sup> <https://www.forbes.com/sites/mindylubber/2018/02/06/we-need-2018-to-be-the-year-of-investor-leadership-on-climate/#742d76f71737>

<sup>9</sup> *Supra* at 1.

# Saxena White in the Community



Can Investors Make America Green Again? *continued from previous page*



responsible environmental conduct developed by the Coalition for Environmentally Responsible Economies ("Ceres"). Amoco initially agreed to abide by one of the Valdez Principles, forming a board level Environmental Health & Safety committee and publishing an environmental progress report within six months of the annual meeting. But Ceres's shareholder resolution efforts continued, and the SEC would not allow Amoco to exclude the Valdez Principles from its annual shareholder proxy statements. Ultimately, instead of adopting the Valdez Principles, Amoco created its own principles, establishing both internal structural changes and an external program to gain broad acceptance of its own initiatives.

The principles of yesterday are more and more frequently becoming the current practices of today. Ceres is leading a multinational coalition of investors, environmental groups, and other public interest groups working with companies to address sustainability challenges like climate change. And now Ceres is also directing the Investor Network on Climate Risk (INCR), a group comprised of 163 institutional investors with assets of approximately \$25.4 trillion that addresses the financial risks and investment opportunities associated with climate change. Currently, investors in this network are successfully addressing environmental issues in four distinct ways:

## 1. Investment

Global Investment in clean energy totaled \$333.5 billion in 2017, with significant commitments from leading investors all over the world. Major banks like Bank of America, JP Morgan, Citi and Goldman Sachs have committed more than \$100 billion each to the low-carbon economy. CDPQ, Canada's second largest institutional investor with more than \$309.5 billion of net assets, committed to increasing its low-carbon investments by more than \$8 billion. And on the morning of the 2018 Investor Summit, New York State Comptroller Thomas DiNapoli announced a new commitment of \$2 billion

in low-carbon investments by the New York State Common Retirement Fund, the third largest public pension fund in the U.S.

And investors aren't only investing, they're divesting as well. New York City Comptroller Scott Stringer set a goal to divest the city's pension funds from fossil fuels, while California pension funds CalSTRS and CalPERS have already divested from thermal coal.

## 2. Engagement

In 2017 alone, investors filed 175 climate-related shareholder resolutions, including a 62% majority vote on a climate risk disclosure vote at ExxonMobil, and majority votes at Occidental Petroleum and PPL. That same year, Climate Action 100+, an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change, was established. Climate Action 100 led the charge on board engagement, with membership growing to more than 300 investors with over \$33 trillion in assets under management signing on to the initiative to date. Currently, the initiative has identified 161 focus companies that either have the highest emissions, have the opportunity to drive the clean energy transition, or have exposure to physical risks. Recent successful engagements include:

- **February 20, 2019** – As a result of engagement led by Climate Action 100+ signatory investors, Glencore, a multinational commodity trading and mining company, has agreed to align its business and investments with the goals of the Paris Agreement: to limit warming to below 2 degrees Celsius (the "2-Degree Scenario") and to achieve net zero emissions in the second half of the century.
- **February 1, 2019** – Climate Action 100+ signatory investors have proposed a far-reaching shareholder resolution at global oil and gas major BP, committing the company to develop a business strategy consistent with the goals of the Paris Agreement. BP's Board of Directors is recommending that its shareholders support the resolution.
- **December 17, 2018** – Institutional investors with an estimated \$1.9 trillion under management, led by New York State Comptroller Thomas P. DiNapoli, as Trustee of the New York State Common Retirement Fund, and the Church of England's investment fund, have filed a shareholder resolution calling on ExxonMobil to set and disclose greenhouse gas reduction targets, covering emissions from both its operations and the use of its products.

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# Saxena White in the Community



Can Investors Make America Green Again? *continued from previous page*

Current momentum on climate risk reporting proposals — in particular, 2-Degree Scenario proposals — has continued to grow since last year's unprecedented support for similar proposals, with the notable wins at ExxonMobil and Occidental Petroleum and proposals at ten more energy and utility companies receiving upwards of 40% support. And according to the 50/50 Climate Project, asset managers could turn the tide for greater success in the years ahead.

In 2017, half of the top 24 asset managers voted for climate-related proposals more than 50% of the time. Eight of the top ten asset managers, however, are in the bottom half — that is, they failed to support key climate-related proposals even 50% of the time. Indeed, several key 2-Degree Scenario proposals would have passed last year if just one of the three largest asset managers had voted in support.<sup>10</sup>

What does this mean? The largest asset managers clearly have the power to sway the voting outcomes for many of these proposals. But many asset managers don't publicly disclose information on their voting decisions. If investors engage their managers regarding voting decisions for key proposals, however, investors will gain critical information regarding voting decisions to better evaluate whether the managers' votes are aligned with pursuing the long-term value investors seek.

### 3. Disclosure

As shown above, one of the results of engagement can be increased disclosure by companies. Increasing the amount of reliable information about financial institutions' exposure to climate-related risks and opportunities will strengthen the stability of the financial system and facilitate the transition to a more stable and sustainable economy. The recommendations set forth by the Task Force for Climate-Related Financial Disclosures (TCFD) are the perfect place to start. TCFD was set up in 2015 by the Financial Stability Board (FSB) to develop voluntary, consistent climate-related financial risk disclosures for companies to provide to investors, lenders, insurers, and other stakeholders. In fact, The Investor Agenda (a comprehensive global investor guide to tackling climate change and achieving the goals of the Paris Agreement) urges investors and companies to swiftly adopt the TCFD.<sup>11</sup>

### 4. Policy

Policy creates the market conditions that make climate action not only possible, but profitable — and investor voices can change the debate. By participating in multinational coalitions focused on sustainability and climate change, hundreds of investors helped pass the historic 2015 Paris Agreement. And, in response to President Trump's 2017 announcement that he would be pulling the U.S. out of the Paris Agreement, investor voices were loud and clear when they joined with businesses, mayors, governors, and universities to say "We Are Still In" on the Paris Agreement, and created a coalition to fulfill their commitment to climate action.<sup>12</sup>



All in all, many investors recognize that ESG information is vital to understand corporate purpose, strategy, and management quality of companies. Actions in these areas not only help investors mitigate risk, capture opportunity, and possibly fulfill fiduciary obligations, but they ensure a safe and sustainable future for generations to come. With global emissions hitting an all-time high in 2018, current climate change investment initiatives are the proverbial "tip of the iceberg" for the future of ESG investing. And with so much at stake, both socially and economically, most investors are of the growing mindset that there is no time to waste.

<sup>10</sup> It's worth noting that ISS recommended a vote in favor of each of the 14 2-Degree Scenario proposals for 2017 covered in the 50/50 Climate Project Report, so these large asset managers went against ISS recommendations in multiple cases.

<sup>11</sup> <https://theinvestoragenda.org/>

# Saxena White in the Community



While corporate policies can have important, positive impacts on environmental sustainability, internal office practices can also be very effective. Whether a workplace is large or small, internal policies designed to minimize an office's carbon footprint can foster a culture of awareness that spreads into the local community. Interest in "going green" is

growing rapidly, with offices and individuals shifting towards sustainable products and practices. Recycling is one of the easiest ways for offices to be greener and can potentially cut down on costs to boot. For more information see <https://smallbiztrends.com/2017/04/how-to-reduce-your-carbon-footprint.html>.

## THE BENEFITS OF RECYCLING



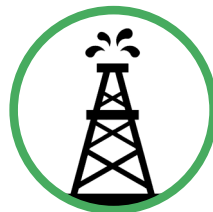
Saves energy



Diverts waste  
from landfill

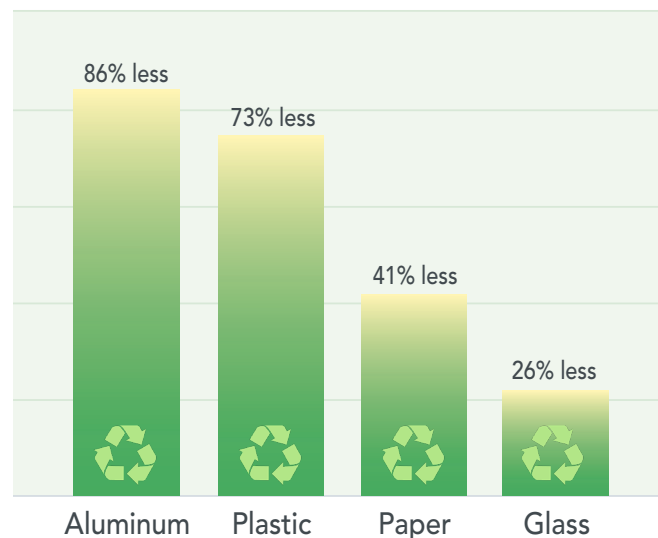


Reduces greenhouse  
gas emissions

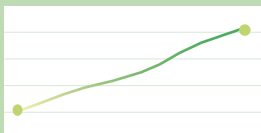


Avoids negative  
effects of resource  
extraction

Recycling these items requires a lot less energy than using virgin materials.



1990:  
2,711  
programs



2012:  
9,022  
programs

### Curbside recycling programs are growing!

Curbside collection is a service provided to households, typically in urban and suburban areas, of collecting and disposing of household waste and recyclables.

After Saxena White implemented many seemingly green practices, we partnered with the Broward County League of Women Voter's Environmental Committee to learn about local best practices, current issues, and regulations. In particular, we learned that recycling is a lot more complicated than simply dropping bottles, cans, and paper into a recycling bin and relying on a waste management company to do the rest. For instance, certain "biodegradable" products are not degradable in our area because local recycling plants are

unable to process those materials. Also, neighboring counties and cities may accept very different recyclable products based on contractual relationships and/or waste plant centers. And mixing non-recyclable items into recycling bins — rendering recyclable materials unusable and unsellable — has become a major problem. On the flip side, current recycling programs are vastly underused, with many offices and homes foregoing recycling altogether. For more information see <https://www.lwvbroward.org/2018/05/28/broward-lvw-studies-recycling/>.

# Saxena White in the Community



Members of Saxena White's Diversity and Social Responsibility Committee pose with Boca Save Our Beaches founder Jessica Gray (third from left). The members of the Committee are (left to right) Adam Warden, Melanie Totten, Kathryn Weidner, Stefanie Leverette, and Kelly Diehr.

Plastic pollution is one of the largest environmental hazards facing humans and animals today, and marine life is particularly vulnerable to this threat. To help educate elementary school students about this important issue, Saxena White has sponsored local non-profit Boca Save Our Beaches in its development of an interactive workbook, titled Seymour's First Journey into the Sea of Debris. The workbook, which has been used by

educators across Palm Beach County, follows the story of a seahorse named Seymour who embarks on a lesson about marine debris. The workbook has been distributed to elementary students at participating schools to further environmental education across Palm Beach County, Florida. Jessica Gray, the founder of Boca Save Our Beaches, presented copies of the workbook to members of Saxena White in March.



In keeping with our ocean theme, last September Saxena White participated in the International Coastal Cleanup, the world's largest one-day volunteer effort to clean up the marine environment. As

a sponsor of the event, Saxena White worked with organizations like the Ocean Conservancy and Boca Save Our Beaches to preserve the health of our beaches and marine environment.

For questions regarding this publication, please contact Kathryn Weidner at [kweidner@saxenawhite.com](mailto:kweidner@saxenawhite.com).

## Upcoming Events

NATIONAL CONFERENCE  
ON PUBLIC EMPLOYEE  
RETIREMENT SYSTEMS,  
ACE 2019  
AUSTIN, TEXAS  
May 19-22, 2019

MASSACHUSETTS ASSOCIATION  
OF CONTRIBUTORY  
RETIREMENT SYSTEMS  
JUNE CONFERENCE  
Hyannis, Massachusetts  
June 2-5, 2019

NATIONAL ASSOCIATION OF  
PUBLIC PENSION ATTORNEYS  
2019 LEGAL EDUCATION  
CONFERENCE  
San Diego, California  
June 25-28, 2019

FLORIDA PUBLIC PENSION  
TRUSTEE ASSOCIATION 35TH  
ANNUAL CONFERENCE  
ORLANDO, FLORIDA  
June 30 – July 3, 2019

MISSOURI ASSOCIATION OF  
PUBLIC EMPLOYEE RETIREMENT  
SYSTEMS 2019 ANNUAL  
CONFERENCE  
Osage Beach, Missouri  
July 10-12, 2019

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