ABBREVIATED FOSSIL FUEL INVESTMENT POLICY REPORT FOR DISCUSSION AT CTSA CONVENTION PLENARY, JUNE 9, 2017

The document below is an abbreviated version of a Report Prepared by Ad Hoc Committee on Fossil Fuel Investment November, 2016 (Coordinator: Thomas Massaro; members: Gina Wenzel Wolfe, Erin Lothes Biviano, John Carr). The abbreviated version was prepared at the request of the CTSA Board to facilitate discussion of the issues by CTSA members at the convention Plenary Session.

The initiative to produce policy recommendations for CTSA investments in companies producing fossil fuels began in 2013 and included a task force which studied the issue during 2014/15. This was followed by an invited session at the 2016 CTSA meeting. Organized by President-elect David Hollenbach, S.J. and moderated by Thomas Massaro, S.J., the June 11, 2016 session was titled: "Responsible Investment in Companies Producing Fossil Fuels: Developing Guidelines for the CTSA and other Catholic Institutions." The three panelists were: Erin Lothes (College of Saint Elizabeth), Regina Wentzel Wolfe (Catholic Theological Union), and John Carr (Initiative on Catholic Social Thought and Public Life, Georgetown University). The panel has worked together to summarize the discussion and provide this document for the Board to inform its decision and to assist other Catholic agencies considering these issues.

Foundational Moral Judgments

Several judgments and findings of climate science are relevant to this matter:

1. It presents an overwhelming case for human causation of global climate change;
2. It acknowledges the urgency of addressing the root causes of global climate change; and
3. It identifies fossil fuel use as a key agent of environmental degradation.

Certain ethical ramifications of these findings of climate science also seem clear. Many people of good will, regardless of religious background and intellectual commitment, would reason from the three items above to these two further propositions:

1. There is a moral obligation to cease harming the environment in these ways.
2. There is a positive moral duty to contribute to the amelioration of the problem.

Pope Francis, in an especially important passage within his June 2015 encyclical *Laudato Si'* (*LS*), acknowledges the considerations above when he declares: "We know that technology based on the use of highly polluting fossil fuels—especially coal, but also oil and, to a lesser degree gas—needs to be progressively replaced without delay. Until greater progress is made in developing widely accessible sources of renewable energy, it is legitimate to choose the lesser of two evils or to find short-term solutions." (no. 165).

Discussion of Complexity

The first sentence from Pope Francis holds clear implications for investment policies. Current practices of investing in the fossil fuel industry derive profits from environmental degradation. Our investment policies must not betray the social mission of the church, which includes promoting ecological responsibility. The case for pursuing alternative strategies, whether full immediate divestment or more gradual and targeted measures, is very strong.

But the second sentence of Pope Francis above introduces notes of complexity and moral ambiguity that invariably attend this topic. The pontiff is wise to acknowledge the constraints regarding what is possible in the short term, and we are seeking prudent ways over time to advance these goals.

Recognizing the toll taken by the ecological crisis in human suffering, the CTSA has sought to develop a principled and researched response based on Catholic teaching that could offer assistance to others wrestling with these questions. The response should reflect that the CTSA brings a distinctive perspective as a body of professional theological researchers, recognizing the differing strategic responses of other institutions. We respect the leadership and expertise of others who have addressed questions of corporate responsibility and environmental justice for many years. In developing policies to guide our own modest investments, CTSA hopes to contribute to the broader discussion on the moral, environmental and intuitional responsibilities raised by the systemic impacts of anthropogenic climate change on all life.

Regarding the shift to alternative energy sources: How are we (small groups and bodies such as the CTSA, larger institutions, and global society in general) to navigate the necessary shift from fossil fuels to sources of renewable energy? Should we insist on a rapid shift or can we tolerate a more gradual transformation? Can this shift be accomplished without enacting a disproportionate burden on communities likely to be most affected and who may lack resources for adaptation (for example, coal miners in Appalachia threatened with job loss and displacement) and especially on less-developed nations (who generally cannot afford more expensive alternative energy sources)?

Regarding engagement and/or gradualism in investment strategy: Is it morally allowable to continue holding investments in corporations with morally objectionable policies with the intention to pursue changes in their policies, priorities and products? How gradual a set of expected changes -- in our investment holdings and in the practices of the corporations we are scrutinizing -- can be justified? Is it adequate to cease acquiring new holdings in fossil fuel companies, with perhaps a gradual attrition and withdrawal of holdings, or is total and immediate divestment morally required?

Regarding the unclear outcomes and effects of investment strategies: To what extent are the actions of investors who, for reasons of conscience, divest of certain morally objectionable holdings simply offset by other investors who purchase the relinquished stocks resulting in little or no effect on stock prices or available capital? How does the search for high performing portfolio managers, who often resist such restrictions, affect these choices? It may well be that, however the CTSA Board directs Christian Brothers Investment Services (CBIS), and whatever CBIS decides to do with their larger holdings, no fossil fuel corporation will experience any significant incentive to change their policies, much less to cease operations or alter their extractive techniques in oil, coal or natural gas.

Alternative Approaches and Recommendations

The paragraphs above by no means easily resolve the dilemmas. At best, they acknowledge the complexity and trade-off of values that many other economic actors (including Catholic universities, religious communities and other institutions) are facing as they take up these difficult questions.

While the second sentence of *LS* 165 cited above correctly acknowledges the complexity and moral ambiguity that invariably attend this topic, the appropriate nuance in Francis's statement does not issue a *carte blanche* to continue business as usual. While there is a place for acknowledging constraints regarding the speed of changes in reshaping investment holdings, and while there is a proper role for the application of the virtue of prudence as we adjust to new moral insights and priorities, the CTSA should not delay in enacting socially and environmentally responsible investment policies.

This report further acknowledges the diversity of Catholic institutions, all of whom, while enacting their missions in particular circumstances, are addressed by the social teaching of the Church and summoned to progressively replace fossil fuels without delay.

Believing that doing nothing is not morally defensible, we examined approaches being used by other Catholic institutions to act on these obligations:

1. Full and complete divestment from coal and fossil fuels. An example is the University of Dayton, the first Catholic University to take steps to divest from coal and fossil fuels in its domestic equity, international holdings, and private equity accounts. (See their webpage): https://www.udayton.edu/news/articles/2014/06/dayton_divests_fossil_fuels.php
2. Targeted divestment from worst actors (i.e., coal companies) and strategic engagement with others to seek to change the behaviors, policies and priorities of other energy companies. An example is Georgetown University. (See their webpage): https://www.georgetown.edu/news/sustainability-policy-regarding-investments.html

Thus this document identifies three models noting advantages and disadvantages of the key choices. Each of the models offers an entry point in a pathway for the progressive replacement of fossil fuels and impact investing by Catholic institutions.

Models

1. Fossil-Free: Complete Divestment

- Divest of positions in all companies involved in fossil fuel production

Advantages:

- ➢ Strongest witness value; greatest potential for calling attention to the moral dimensions of fossil fuel investments and influencing other actors
- ➢ Makes the investor a leader in counteracting climate change, offers clear example and encouragement to others
- ➢ Signals moral clarity about need for action even when implementation is complex
- ➢ Avoids continuing embroilment in industries with history of obstructing engagement
- ➢ Safest under potential future legal re-definitions of financial prudence vis-à-vis climate change under charitable purpose doctrine of the Uniform Prudent Management of Institutional Funds Act (UPMIFA)[1] (such a lawsuit is already pending against the US Government from youth plaintiffs)
- ➢ Endorsed by significant leading scientists, economists and financial investors (James Hansen, Jeffrey Sachs, Bevis Longstreth)[2]
- ➢ Consistent with global action plans to reduce use of fossil fuels (not necessarily divestment) called for by international treaty (the UNFCCC Paris Agreement) and the G-7
- ➢ Simplest position with least time dedicated to monitoring and portfolio adjustments

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[1] Lawyer and former commissioner of the Securities and Exchange Commission Bevis Longstreth formerly influenced the legal definitions that allowed trustees of non-profits to invest in hedge funds that previously were considered too risky and not legally prudent. He is currently researching legal reinterpretations of what constitutes prudent management of institutional funds now that the investment landscape is filled with new risks for fossil fuel investors. See http://insideclimatenews.org/news/07062016/retired-lawyer-boris-longstreth-floodgates-divestment-fossil-fuels-climate-change-investments

[2] http://catholicclimatemovement.global/jeffrey-sachs-divestment/

- Greatest contribution to building clean energy economies
- Potential for higher returns as prices of sustainable energy become competitive
- Option to retain $2000 in holdings to support shareholder resolutions

Disadvantages

- Potential fiduciary risk for lost returns
- Requires considerable expertise and time of investment management professionals
- Failure to distinguish companies based on differing policies, practices, priorities and performance, now and in the future.
- Could end opportunities to work with others engaged in shareholder efforts to influence corporate behavior through shareholder resolutions and dialogue
- Offers little or modest impact on the affected companies since others are willing to invest
- Inconsistent with continuing reliance on some of these companies for power and other energy
- Substitutes the investor's judgement for Interfaith Center on Corporate Responsibility which is the leader of Catholic and religious efforts and generally recommends engagement over divestment
- Setting new precedent for sweeping divestment in other sectors of economy which have products or practices inconsistent with Catholic teaching with unanticipated consequences

2. Mostly Fossil-Free and Assess Further Future Re-Investment:

- Divest of positions in coal and all the most carbon-intense producers of oil and gas (the Filthy Fifteen and Carbon Underground 200)
- Actively invest in energy companies that are reducing carbon intensity in carbon holdings and operations at an appropriate pace, consistent with scientific predictions of the levels of renewable energy needed by 2030 and 2050 to minimize the worst impacts of climate change
- Work with others to identify alternative ways to influence these corporations, particularly encouraging the development of alternate investment vehicles and support for a carbon price
- Retain investments in companies with 10% or less revenues from oil and gas production to avoid overly complex extrication from commingled funds

Advantages:

- Greater impact on reducing carbon emissions by shifting investment dollars away from greatest number of most polluting industries
- Exposure to significant growing industries as world economies commit to decarbonization
- Important witness value
- Strong action that acknowledges complexity of energy and investment sector transitions
- Potential for higher returns as prices of sustainable energy become competitive

Disadvantages:

- Potential fiduciary risk for lost returns
- Not as clear as full divestment

- Requires considerable expertise and time of investment management professionals and very difficult for a small investor

3. Coal Free: Targeted Divestment and Strategic Engagement /Assessment of other Energy Companies

- Divest from energy companies with worst environmental impact, least commitment to alternative energy, and least responsiveness to engagement efforts. Specifically, divest from 100 largest coal companies, as defined by carbon in proven coal reserves
- Work with others (e.g., universities and colleges, religious communities, etc.) to proactively engage energy companies in which they hold stock to change their policies, practices and sources of energy by voting on, developing or supporting shareholder resolutions and pursue dialogue and communications with companies and policymakers
- Assess progress/resistance annually with a full review that creates defined expectations and standards for assessing responsiveness to engagement after 3 years to consider further divestment and other steps

Advantages:

- Strong and visible action. Example of leadership
- Distinguishes among energy companies with differing records, performance and responsiveness
- Seeks to influence the advocacy policies and priorities of energy companies, encouraging some companies to end or reduce opposition to climate change legislation
- Ends support for the most carbon-intense industry (coal)
- Eliminates holdings in a poorly-performing sector (coal)
- Links the investor to ongoing efforts of other Corporate Responsibility leaders on fossil fuels
- Involves the investor in shareholder efforts on energy, environment and climate change
- Reflects Catholic tradition of engagement and dialogue over isolation and disengagement.
- Potential for higher returns as prices of sustainable energy become competitive

Disadvantages:

- Potential fiduciary risk
- Requires considerable expertise and time of investment management professionals
- Requires active collaboration with corporate responsibility leaders on shareholder activity and dialogue efforts
- Not as clear or prophetic as full divestment
- Impact of engagement may be limited or minimal[3]

All models have the option of retaining $2000 of holdings in questionable companies in order to support corporate responsibility advocacy. All models have the option of exploring impact investments in

[3] "Exxon's Gamble: 25 Years of Rejecting Shareholder Concerns on Climate Change," http://books.insideclimatenews.org/exxonsclimategamble See also "CBIS's Perspective on Fossil Fuel Divestment," http://cbisonline.com/us/wp-content/uploads/sites/2/2016/04/CRI_FossilFuelDivestment042516_final1.pdf

sustainable energy projects, social impact organizations, and renewable energy sectors.

A Multi-dimensional Approach

As Church, the multi-dimensional approach to countering the negative impacts of the fossil fuel industry includes numerous practices, such as education and political advocacy, conducted by multiple Church institutions reflecting the special expertise or spheres of action of each. These practices are important and necessary and represent a complement to investment choices.

Today, the multiple ministries of the Church allow a multi-dimensional response from various groups, such as the United States Conference of Catholic Bishops, the Catholic Climate Covenant, Catholic Charities, Caritas, parish creation care groups, and the Interfaith Center on Corporate Responsibility (ICCR) with its professional focus on shareholder resolutions. Together, these groups promote complementary advocacy practices. A multi-dimensional advocacy response offers viable and important (some claim, more practical) alternatives and/or complements to full and immediate divestment from holdings in objectionable corporations. In other words, pressure upon fossil fuel corporations to change their practices may come from a number of initiatives: a push for divestment; ongoing efforts of shareholders to work from the inside through ordinary governance procedures; broader advocacy and support for the Green Climate Fund; calls for a carbon price; energy cost supports for low-income families; and job creation, especially in former coal and gas regions.

This multi-dimensional approach is also reflected in the broader range of investment options in values investing today, not only screens and exclusions, but increased attention to environmental, social, and governance concerns as well as impact investing, for those investors who choose these strategies. It is wise to acknowledge the complexity and trade-off of values that many other economic actors (especially Catholic universities) have already been addressing as they have taken up these difficult questions.

In taking up the question of how best to practice consistent investor responsibility regarding the fossil fuel industry, the CTSA is engaging in communal discernment on a vital and urgent matter. Global climate change threatens our entire ecosystem, including every member of the human family, and especially the vulnerable among us. Here, the CTSA takes up the call of Pope Francis, "to develop a new economy, more attentive to ethical principles." (*LS* 189). In an effort to move in this direction and recognizing that fiduciary responsibility for investment decisions rests with the CTSA Board, this report recommends the following next steps:

Recommendations

1. Invite conversations with financial and investment professionals from CBIS and the Catholic corporate responsibility and impact investing communities who have the expertise and capacity to conduct monitoring and assessment and can assist in drafting concrete, policy-specific guidelines. These professionals represent multiple perspectives: some oversee divested portfolios; some are leaders in ICCR; some are advisors to large Catholic universities, hospital systems, and religious communities; others serve high net-worth individuals and foundations.

    a. Specifically, request input from CBIS and other financial professionals to refine models in line with their knowledge of state-of-the-art monitoring capacities.

    b. Request input to assess and prepare against the potential for significant, unpredictable and potentially negative financial consequences of potentially limited diversification vehicles.

2. Invite observation and comment from a small number of Catholic institutional representatives to explore ways to pursue these goals in institutions with the varying investment portfolios, needs, and assets of our diverse institutions (i.e., a representative from a large Catholic hospital network; a diocesan pension fund; a religious order; Catholic Charities; and Catholic Universities who are addressing these matters).
3. If a call for full divestment were to be adopted, request CBIS staff to develop and implement the specific steps needed to do the following:
    a. Identify and implement the necessary steps to divest from coal within this year.
    b. Progressively phase out other fossil fuels.
        i. Identify the carbon intensity of CTSA's single-stock investments in Carbon Underground 200 firms to permit assessment of carbon intensity reductions in subsequent years.
        ii. Identify the carbon intensity of commingled funds for the same purpose.
        iii. Create a timeline listing the steps needed to phase out investments in producers of oil, gas, and consumable fuel products, both single-stock and commingled funds within five years.
4. Share outcomes of refined models with Catholic institutions.
5. Recommend wide implementation of the supporting actions listed below in the ways possible for an institution of our nature.

Supporting Actions

1. Continue to focus attention on and encourage CTSA members to address the theological, moral and public dimensions of biblical and Catholic teaching on care for creation. Focus attention particularly on *Laudato Si'* and the moral and human dimensions of climate change in subsequent meetings.
2. Recommend increased focus on efficiency and sustainable energy practices at home institutions to acknowledge and reduce the inconsistency attendant upon continuing reliance on some of these companies for power and other energy sources.
3. Recognizing that divestment may have little or modest impacts on the affected companies, affirm the need for policy advocacy on multiple levels as a supporting action distinct from attention to investments.
4. Affirm those already taking steps to minimize investment positions in fossil fuel companies as well as those professionals long committed to corporate responsibility. Work with professionals committed to corporate responsibility and impact investing to identify alternative ways to influence these corporations, especially by creating additional investment vehicles that offer low-carbon investments. (Note: CBIS is in the process of creating a fossil-free vehicle.)
5. Consider using the term, "impact investing"; this reflects terminology used at the June 26, 2016 Vatican conference sponsored by Catholic Relief Services and the Pontifical Council for Justice and Peace, which convened impact investing experts to explore how impact capital can advance and sustain their social mission: see the conference website.)
6. Emphasize support for affected workers, families and communities, with particular emphasis on jobs in transitional economies. Offer to support a broader Church response for job creation in affected areas, perhaps as an interdisciplinary, CTSA-convened reflection on the Appalachian pastoral, which would engage economists, business leaders, and other experts.

The CTSA invites Catholic institutions to join us in responding to this moral, economic and human challenge by considering, adopting or adapting one of the three models described above as a starting point for progressively replacing fossil fuels and assisting our discernment of best practices by sharing their experiences. As a faith community of theologians, endeavoring to heed the call of *Laudato Si'*, we sincerely seek partners as we build upon decades of Catholic magisterial teaching, to care for the entire human family and all communities of living things within God's creation in all its wonder and fragility.

As Pope Francis said to the UN Convention on Climate Change, 2014:

> The time to find global solutions is running out.
>
> We will only be able to find adequate solutions if we act together and in agreement.
>
> Hence, there is a clear, definitive and ineluctable ethical imperative to act.