

► CATHOLIC RESPONSIBLE INVESTING

CBIS' Perspective on Fossil Fuel Divestment

APRIL 2016

Divestment of fossil fuel companies has recently gained favor among some investors. CBIS respects the decision to divest, but we believe robust and substantive engagement with companies is a more effective way to reduce CO₂ emissions and create a cleaner global energy future.



Catholic Responsible Investing

Along with our many partners among faith-based and other socially responsible investors, CBIS has been at the forefront of climate-change-related corporate advocacy for more than 15 years. We have chosen shareholder engagement as our approach, using our influence as shareholders to press for corporate policies that address the risk of climate change to shareholder value, society and the environment. Because CO₂ emissions result from activity across a wide variety of economic sectors, our strategy encompasses not only fossil fuel companies but other industries that produce, or that can influence, carbon emissions and are therefore integral to the transition to a low-carbon economy; these include electric utilities, oil and gas companies, insurers, financial services firms and automakers. In general, we seek engagement with companies we believe have an opportunity to help transform the broad economic infrastructure that produces carbon emissions, with a focus on energy supply and demand at the core of our work. We advocate for policies that reduce greenhouse gas emissions, encourage development and use of clean energy technologies, improve fuel efficiency, and reduce the carbon impact of oil and natural gas production. Our work has produced significant and widely recognized positive change at many corporations and it continues today.

POWER OF SHAREHOLDER ENGAGEMENT

98%

Shareholders who voted for resolutions CBIS co-filed asking BP and Shell for more disclosure on climate impacts

\$4.5 billion

Amount Ford will invest in electric vehicles by 2020, satisfying a request by CBIS' shareholder dialogue group

185,000 trees

Equivalent saved when Allstate reduced paper use by 41% after a dialogue that included CBIS

FOSSIL FUEL DIVESTMENT

Over the past five years, a different strategy has gained favor among some university, faith-based and other concerned investors. These organizations have decided to divest and screen from portfolio companies that produce fossil fuels (primarily coal and oil and gas exploration and production companies).

One organization promoting the divestment campaign is 350.org, an international environmental organization that seeks to build a grassroots movement among shareholders divesting from fossil fuels. The name of the group refers to the parts per million (ppm) of CO₂ in the atmosphere that some scientists say must be attained to avert a climate crisis.

According to Fossil Free, another organization that is against the use of fossil fuels, 500 institutions with \$4.3 trillion in assets have adopted some form of fossil fuel divestment. The organization defines fossil fuel companies as the group of about 200 publicly-traded companies that hold the vast majority of listed coal, oil and gas reserves.

Divestment can range from full (all fossil fuel companies) to partial (a subset of fossil fuel companies which the divesting organization believes have the worst environmental impacts). By screening fossil fuel companies, these investors believe that they avoid profiting from the industry while making a public statement that may cause the companies to turn their strategies away from fossil fuels to cleaner sources of energy.

Among the more prominent investment firms, Church groups and pension funds that have committed to some level of divestment are The California Pension Employee Retirement System, The Lutheran World Federation, Rockefeller Brothers Fund, World Council of Churches and the Norwegian Sovereign Wealth Fund. Other major financial institutions have developed products that restrict or remove oil and gas companies from the portfolio. Colleges and universities have also made commitments. In 2014, the University of Dayton, a Catholic, Marianist university, announced it would implement a phased approach to divestment of coal and other fossil fuels. It is believed to be the first Catholic university in the nation* to take this step.

*350.org estimates that 27% of the 500 organizations that have divested are faith-based.
<http://go.fossilfree.org/commitments/>

CBIS respects the decision by these organizations to divest fossil fuel holdings. Our 35 years of experience implementing a Catholic screening policy for hundreds of organizations worldwide has shown us, unequivocally, that concerned investors will often differ in their preferred methods while remaining equally committed to manifesting their shared social and religious values in the investment process. In our case, we base any policy to adopt screening on a deep understanding of Catholic moral theology. Our goal is to restrict from investing in companies whose products or services are fundamentally in conflict with Catholic beliefs and that run contrary to the Church's teachings. We also gain insight from surveys and discussions with our participants about the issues that concern them most and their preferred approach to addressing them — whether through screens or through engagement.

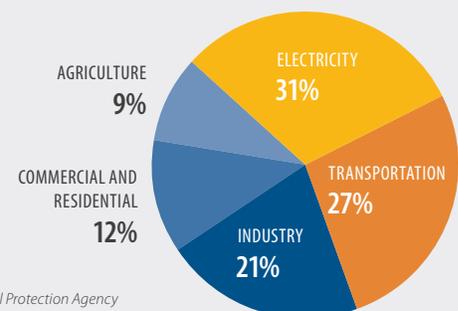
DIVESTMENT CHALLENGES

CBIS believes that engagement and advocacy with fossil fuel companies is the most effective way to address the risks and threats posed by CO₂ emissions. In our view, there are several challenges associated with divestment. These challenges do not negate its power as an expression of an organization's spiritual and social values, but they may cause divestment to be less effective than desired at fostering constructive change toward a cleaner global energy future.

A Narrow Scope

Fossil fuel companies are only a small subset of the companies whose operations can have an impact on climate. According to the U.S. Environmental Protection Agency (EPA), the transportation industry is responsible for nearly 30% of U.S. greenhouse gas emissions, primarily from the burning of fossil

U.S. GREENHOUSE GAS EMISSIONS
BY SECTOR



Source: U.S. Environmental Protection Agency

fuel by cars, trucks, ships, trains and airplanes. Electricity production generates the largest share of greenhouse gas emissions, the majority of which comes from burning fossil fuels. Addressing these key economic sectors in a comprehensive manner may have a greater impact than focusing solely on fossil fuel companies. Moreover, investors contemplating divestment should consider where the funds will be redeployed. New investment in high-polluting or emitting companies or sectors may negate the core principles embodied in a divestment strategy.

A Holistic Approach

Since climate change is a multi-sector issue, CBIS has developed a holistic approach to focus on key sectors that cover both the demand for and supply of oil and gas. Beyond evaluating fossil fuel exposure to oil, gas and coal, CBIS' work covers the most impactful sectors to address climate challenges. This will be necessary to limit global temperature rise below 2 degrees according to the non-binding mandate from the 2015 Paris Climate Conference.

Once shares are divested, an investor no longer has any influence over a company's management.

CBIS has been part of or led coalitions that have encouraged many different companies to take steps like improving energy efficiency, developing cleaner sources of power, imposing limits on greenhouse gas emissions, and disclosing potential climate risks.

Lost Leverage

Once shares are divested, an investor no longer has any influence over a company's management. As an investment manager for Catholic institutions for over 30 years, we approach companies with the understanding that none are perfect and that progress often requires considerable time and patience. One of the themes throughout Pope Francis' encyclical *Laudato Si'* is engaging in "discussion" and "conversation." When a company is divested, the conversation is over. If the statement implicit in divestiture is not powerful enough to effect the change desired, then no further progress can be made. Plus, investors may miss a crucial opportunity — large fossil fuel

companies have unique potential to help lead the way to a cleaner energy future since they have significant resources to invest in research and development of new or improved technologies. CBIS believes that active engagement is a better approach than divestment for encouraging such investment.

Financial Risks

Safeguarding and building financial wealth for future generations is a critical aspect of any investment program. Understanding how changes in investment strategy may impact performance is prudent and necessary. This should be weighed against the likelihood that divestiture will contribute meaningfully to desirable environmental goals. It may be beneficial to fully understand the level of a portfolio's exposure to fossil fuel companies and weigh that against the realistic impact of divestment on the companies screened.

No Viable Alternative

Fossil fuels remain critical to many industries and are integral to nearly every aspect of daily life. There is currently no viable alternative to fossil fuels at a reasonable cost or at the scale that can address society's energy needs. Many fossil fuel companies are already investing in a long-term transition from coal and oil to natural gas and renewables, in response to market forces and regulatory activity. CBIS wants to encourage these changes, helping these companies recraft their policies and strategies accordingly. We encourage CBIS participants to adopt a philosophy with respect to fossil fuel investment that seeks to balance current energy needs with ongoing environmental protection. The world's current dependency on fossil fuels makes it unlikely that divestment will create financial market pressure that brings about a reduction in the use of fossil fuel over and above that which is already occurring due to government policy and market forces.

CATHOLIC SOCIAL TEACHING AND CLIMATE CHANGE

While many Catholic faithful firmly believe in the devastating impacts of climate change, others question the validity of climate science. Climate change can impact the ability of God's creation to provide for humans — those alive today as well as future generations. In this way, climate change is an issue that should be a particular concern to Catholics. Its negative effects may be felt disproportionately by the poor and the weak. Potential disasters are harder to survive and to recover

from when there is poor housing, no insurance, and a lack of savings or infrastructure. If food prices increase over time due to climate-related agricultural production disruptions, the hardest hit will be those with inadequate income. We must address these issues too.

CBIS was among the first group of investors to file shareholder resolutions requesting companies take action on climate change.

Pope Francis' encyclical letter, *On Care for Our Common Home*, helped to position his views to Catholics globally and to assert that protection of the environment remains a key imperative for the Vatican. This is not a new approach — the Church's call to respect nature, take prudent action, and protect the poor and vulnerable from the impacts of climate change has been longstanding. In 1991, the United States Conference of Catholic Bishops released a pastoral statement on environmental protection, "Renewing the Earth," followed by the 2001 "Global Climate Change: A Plea for Dialogue, Prudence and the Common Good," which argued that the issue is not about economics or politics. Rather, "It is about the future of God's creation and the one human family. It is about protecting both 'the human environment' and the natural environment."

Catholics have an obligation to protect Creation — to preserve it in order that it may support and sustain all human life, including those yet to be born. Catholic institutions can play an important role in addressing climate change by accepting the call to action. The long-term solution to the climate issue is likely a multi-faceted one that CBIS believes will require action on a number of fronts.

A HISTORY OF PROGRESS

Making progress on climate change is not a new area for us. CBIS has a long record of accomplishment over many engagements with leading global companies on the issues of climate change and carbon emissions. These engagements have played a critical role in moving companies toward better environmental stewardship. Following are some highlights of our work as both a leader of and a participant in many investor coalitions:

- ▶ CBIS was among the first group of investors to file shareholder resolutions requesting companies take action on climate change. We lent our voice and shares by co-filing resolutions at major companies like Texaco, Exxon and Ford, raising the profile of an emerging issue from leaders in their sector. We remain a strong member for over 20 years of The Interfaith Center on Corporate Responsibility (ICCR), the leading faith-based shareholder advocacy coalition globally, working to strengthen climate policies and programs at Exxon and Ford.
- ▶ CBIS led a successful engagement at JP Morgan Chase. The company agreed to include climate change in its business risk analysis and to encourage clients to develop plans for carbon mitigation that included measurement and disclosure of greenhouse gas emissions and plans to reduce or offset these emissions. In a financial industry first, the bank agreed to integrate the cost of greenhouse gas emissions into its analysis of power sector finance projects.
- ▶ Working with the State of Connecticut pension fund, CBIS helped convince American Electric Power to become the first major U.S. electric utility to report on the business and financial risks resulting from climate change. The report discussed the implications of potential future carbon regulation on its business and assessed the impact of several climate change scenarios on future financial performance. Many other utilities subsequently followed AEP's lead, resulting in greater disclosure across the sector.
- ▶ CBIS was part of a multi-year engagement at Exxon Mobil that succeeded in pressing the company to no longer challenge the science of climate change. CBIS played a key role in a coalition of faith investors over several years, speaking at an Exxon shareholder meeting, and appearing in a feature in *The New York Times*. This helped raise awareness of the need for stronger action. We continue to co-file resolutions at Exxon requesting carbon emissions reductions, an area where some investors also continue to press and some progress has been achieved.

- ▶ After several years of engagement by CBIS and other investors, Chevron agreed to adopt targets for reducing greenhouse gas emissions that included plans to track the carbon content of its products and integrate the cost of carbon into new investments.
- ▶ CBIS was part of an investor coalition with The Ecumenical Council for Corporate Responsibility in the U.K. that persuaded BP to review the impact of potential changes in projected long-term oil demand on its Canadian oil sands project, among the largest known oil reserves in the world. Working with effective international investor coalitions broadens our reach and demonstrates our global approach.
- ▶ CBIS was also part of an investor coalition with the Church Investor Group that persuaded Royal Dutch Shell and BP to support resolutions co-filed by CBIS asking for greater disclosure about their climate impact. CBIS led the work in the U.S. to hold the companies to account. The votes, both at 98% in favor, were the highest ever for a resolution co-filed by CBIS. It raised the bar for all companies to pay close attention to the risks and opportunities related to environmental stewardship. We expect Shell and BP to publish their climate strategy in 2016 in their annual and sustainability reports and to meet with CBIS to review the findings.
- ▶ CBIS is a participant with members of ICCR in a long-term, broad-based dialogue with Ford. Our history working with the company and our knowledge of the engagement and the industry have helped to shape and advance the engagement. In early 2016, Ford announced it will invest \$4.5 billion in electric vehicles by 2020, satisfying a long-time request by our shareholder dialogue group for a stronger commitment to clean energy technologies. More than 40% of Ford's nameplates globally will use electric power by the decade's end.
- ▶ Demonstrating the importance of internal efforts to protect the environment, a recent campaign at Allstate reduced paper use by 41%, equivalent to approximately 185,000 trees, and saved the company \$750,000 a year. CBIS was proud to be part of a

dialogue led by CERES that helped to bring about these advances.

PROXY VOTING

In addition to engagements and shareholder resolutions, CBIS votes on climate-focused proxies each year across our Funds. Over the past five years, CBIS voted on **553** shareholder resolutions regarding climate change. The votes we place on behalf of participants allow us to influence the strategic direction of companies in our portfolio.

INVESTOR PARTNERSHIPS

In addition to engagement, CBIS participates in numerous industry coalitions, working in collaboration on climate issues with a variety of partner organizations. These partnerships and coalitions have helped CBIS to gain access to corporate leaders, obtain scientific research, discover new engagement partners, and lift our voice and share our views on the issues that are most important to Catholic investors.

- ▶ The ICCR includes 275 faith-based investors with \$110 billion in assets working together to impact corporate behavior. In 2015, ICCR members engaged more than 60 companies and filed more than 40 climate-focused shareholder resolutions. CBIS is a member of the governing board, helping to influence the current and future strategy of the largest socially responsible faith-based investor network in the world.
- ▶ CBIS is a member of CDP, formerly Carbon Disclosure Project, which works with 822 investors representing \$95 trillion in assets to encourage companies to disclose their greenhouse gas emissions and their programs to address climate change. CBIS and CDP members successfully encouraged over 5,600 companies to disclose information related to their climate performance in 2015. This data gives CBIS insight into companies' greenhouse gas emissions, water usage and strategies for managing climate-related risks.
- ▶ The Investor Network on Climate Risk includes institutional investors representing \$13 trillion in assets working collectively to encourage strong

corporate and government action. The annual Investor Summit at the United Nations allows us to hear from Wall Street leaders, learn from the leading scientists, and develop partnerships with effective organizations on climate issues.

CONCLUSION

CBIS actively challenges fossil fuel companies by staying engaged and invested. We believe that active ownership can have a meaningful role in reducing greenhouse gas emissions and addressing climate issues. We also believe our work has resulted in more environmentally friendly business practices, better environmental policies, energy efficiency improvements, additional information on emissions and impacts on communities, and waste reduction.

And our efforts have impacted not just fossil fuel companies but also electric utilities, automakers, financial institutions, and retailers, among other industries. We will continue to raise

our voice — whether it be in the press, in the board room or in shareholder meetings — and play a critical role in helping companies reduce their climate and environmental impact. Of course, none of this is possible without the support and trust of CBIS' participant organizations.

In CBIS' view, successfully addressing climate issues will demand a range of strategies including public policy and the development of new technologies, and needs to include open dialogue among corporations and consumers. Much like Christ's example — Jesus gladly spent time with sinners who were open to his teaching — CBIS engages in direct, ongoing dialogues to address issues of concern to Catholic investors. If the desired goal is to influence and change companies' activities, a determined and patient approach that includes direct engagement can be more effective over time than divestment.

Important Information

This is for informational purposes only and does not constitute an offer to sell any investment. The funds are not available for sale in all jurisdictions. Where available for sale, an offer will only be made through the prospectus for the funds, and the funds may only be sold in compliance with all applicable country and local laws and regulations.