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Contact: Toby Heaps, CEO Corporate Knights, +1 416 274 1432, toby@corporateknights.com

Carbon Costs Erase Billions from Major Funds

Corporate Knights launches new tool analyzing Gates Foundation, Wellcome Trust, ABP, CPPIB and others to see how much money may have been left on the table

TORONTO, CANADA -- Corporate Knights, together with 350.org and South Pole Group, is launching the Clean Capitalist Decarbonizer, an interactive tool that shows how divesting from carbon heavy companies in a portfolio could impact its financial performance. For this first-of-its kind tool, Corporate Knights has conducted research and analysis on the investments of 14 funds, including the Gates Foundation and ABP, to determine the scale of losses in a given timeframe from continued investments in fossil fuel companies.

Corporate Knights analyzed the most recently disclosed holdings of 14 prominent funds[1] to estimate the potential financial impact had they shifted their investments from Carbon Underground 200 companies [2] and utilities that rely on coal for more than 30 percent of their electricity generation[3] to companies providing environmental solutions [4]. From there, the total returns over a three year period starting on October 1, 2012 were calculated. This coincides with the first full quarter following 350.org founder Bill McKibben's article in Rolling Stone, which launched the fossil fuel divestment movement.

"The analysis of 14 major funds with a total $1 trillion in assets, based on available data, showed that carbon-intensive investments may have cost investors $22 billion in reduced returns. While incomplete disclosure limits the precision of analysis, the conclusion is unequivocal: decarbonizing portfolio holdings produced a better financial outcome in every case but one," said ***Corporate Knights chief executive, Toby Heaps.*** *"It helps explain why a growing group of investors* [5] *are voting with their dollars for less pollution and more environmental solutions."*

Some funds were found to have substantially higher exposure to carbon heavy companies, while others have quietly reduced, or in some cases completely eliminated, their major holdings exposure to the most carbon-intensive companies and as a result avoided significant financial losses. This comes on the heels of two reports: one from Oxford identifying the fossil fuel divestment movement as the fastest growing divestment movement in history, and the other by the Arabella Advisors, which found that the movement to divest from fossil fuels and invest in renewable energy and climate solutions grew 50-fold in only one year, topping $2.6 trillion in assets under management by institutions and individuals committed to divestment.

"Major funds have consistently outperformed major indices in the last three years, through decarbonizing their portfolios. Our wide coverage with over 40,000 considered companies and

our methodology with over 800 approximation models guarantees the accuracy and pertinence of the Clean Capitalist Decarbonizer. We are excited to be part of this initiative," says **Maximilian Horster, Director Financial Services at South Pole Group**.

The period of analysis coincides with a tough market for oil and commodity prices, and it is possible that over the next few years, some oil stocks and even coal utilities could partially recover; however, when considering the long-term, many investors recognize the increasingly tenuous business case for remaining heavily invested in carbon intensive industries, as outlined by the Governor of the Bank of England Mark Carney. In failing to divest, institutions risk under-exposure to $3 trillion of public equities positioned to benefit from a more resource efficient and expanding low carbon economy.

"The impact of climate change will be a major investment theme in the next decade and investors who are at the forefront of addressing risks, such as stranded assets in their portfolio construction and security selection process, should be the beneficiaries of stronger long-term risk adjusted performance," said **Christopher Ito, Chief Executive Officer of Fossil Free Indexes**. *"We are pleased that the Carbon Underground 200™ has become a standard tool for investors as they evaluate their exposure to reserve owning companies. Historical results such as those indicated by the Clean Capitalist Decarbonizer begin to help shape the narrative, but going forward, the impact of climate change and future carbon pricing will likely have a more pronounced impact especially on those reserve owning companies whose business models and strategies are not consistent with the move toward a low carbon economy."*

While this analysis focused on the past three years, dating to the launch of the fossil fuel divestment movement, other analyses over a ten year period by MSCI and Fossil Free Indexes also found fossil free portfolios outperformed.

"*The Decarbonizer will provide a deeper level of transparency in the discourse around the investments of some of the world's most prominent institutions*," said **Brett Fleishman, Senior Analyst at 350.org**. "*The success of the divestment campaign is evidence that the tide is beginning to turn against fossil fuels. When the tool disclosed that the University of Toronto could have generated an excess return -- big enough to have paid full tuition for the entire student body for all four years -- if they had divested from fossil fuels when the campaign started, the conversation became grounded in the story of the institution itself. Divestment is the moral, prudent, and smart thing to do.*"

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Notes for Editors:

[1] 14 Funds analyzed

Fund	Size of fund in USD	Estimated Cost of not decarbonizing 3 years ago[6]
Algemeen Burgerlijk Pensioenfonds (ABP): "Dutch Civil Servants Pension Fund")	$382,344,000,000	$9,366,211,873
Australian National University Endowment[7]	$686,980,602	$53,850,841
Canada Pension Plan Investment Board	$199,825,920,000	$7,025,528,323
Future Fund (Australia)	$83,152,631,000	$1,546,602,354
Bill & Melinda Gates Foundation Trust Endowment	$40,564,000,000	$1,897,962,806
Harvard University Endowment (Harvard Management Company)	$37,600,000,000	-$206,290,976
London School of Economics Endowment	$147,939,674	$3,062,919
McGill University Endowment (McGill Investment Pool)[7]	$990,520,320	$32,330,177
New York City Employee Retirement System (NYCERS)[7]	$54,451,000,000	$1,618,154,962
Ontario Municipal Employees Retirement System (OMERS)[7]	$54,374,400,000	$756,153,815
Ontario Teachers' Pension Plan (OTPP)	$115,081,907,200	0
University of Toronto Asset Management Corporation	$5,588,480,000	$419,418,629
Vermont Pension Investment Committee	$4,020,000,000	$79,387,949
Wellcome Trust	$27,448,424,600	$352,680,885
Total	$1,006,276,203,396	$22,945,054,557

About Corporate Knights: Corporate Knights is a media and research company, which publishes the award-winning business and society magazine Corporate Knights, and produces corporate rankings, research reports and financial product ratings based on corporate sustainability performance. Its best-known rankings include the Best 50 Corporate Citizens in Canada, Global 100 Most Sustainable Corporations, and Newsweek Green Rankings powered by Corporate Knights.

About the Clean Capitalist Decarbonizer: Created by Corporate Knights and powered by carbon data from South Pole Group, the Clean Capitalist Decarbonizer is a free interactive tool designed to shed light on the financial implications of divesting high carbon companies in favour of those providing environmental solutions. The Clean Capitalist database covers 7,000 securities (comprising more than 85% of global market capitalization), including all primary public equity securities with a market cap over $2 billion and/or listed on major national and global indices. An advanced version of the Clean Capitalist tool for the investment community will be launched at the upcoming Paris Climate Conference.

About South Pole Group: Zurich-based South Pole Group began as a project-driven company focused on developing and selling high-quality carbon credits. Today, it is the world's leading provider of climate solutions. No other firm in the world has developed as many successful emission reduction projects. No other company offers as rich a suite of services and solutions. South Pole Group helps public and private sector organisations develop climate proven policies and strategies. Areas of expertise cover every key sustainability-related area of climate change, including but not limited to: forests & land use, water, sustainable cities & buildings, as well as renewable energy and energy efficiency. For more information, visit www.thesouthpolegroup.com or follow the company @southpolegroup.

Nadia Kähkönen, Communications Manager, South Pole Group
Ph: +66 2 678 8977, email: n.kahkonen@thesouthpolegroup.com

[2] The list of Carbon Underground 200, originally pioneered by Carbon Tracker, was provided by Fossil Free Indexes, and consists of the top 100 public coal companies globally and the top 100 public oil and gas companies globally, ranked by the potential carbon emissions content of their reported reserves.

[3] The list of utilities which generate more than 30 percent of electricity from coal was provided by South Pole Group.

[4] Companies providing environmental solutions derive at least 20% of their revenues from environmental markets or new energy as verified by FTSE Environmental Markets or Bloomberg New Energy Finance. The collective market capitalization of the companies providing environmental solutions totalled $3 trillion as of September 30, 2015.

[5] Some examples of investors leading the way: PFZW, the $183 billion Dutch pension fund has pledged to halve its carbon footprint by 2020 while increasing its investments in climate solutions fourfold. AXA, the French insurer with $1.6 trillion in assets under management, is selling off its stakes in mining companies and electric utilities deriving over 50% of their turnover from coal, while tripling its green investments. It is also notable that the French government recently amended legislation to require institutional investors to report their carbon footprints as well as how they are contributing to the international goal of limiting climate change. Bob Litterman, a former head of risk management at Goldman Sachs, is shorting carbon for higher returns. The Litterman-inspired WWF stranded assets total return swap is long S&P 500 and short “stranded” assets. It has returned more than 40 per cent for the World Wide Fund for Nature since January 2014. 23 investor signatories to the Montreal Carbon Pledge and Portfolio Decarbonization Coalition with assets totalling $1.2 trillion have pledged to reduce their portfolio carbon footprints by as much as 50%-80% without sacrificing financial returns, including the Swedish pension fund AP4 and French pension funds ERAFP and FRR.

[6] Based on the difference of investing the estimated value of a fund's public equities holdings (on Sept 30, 2012) in two simulated portfolios (Clean and Uncleaned), rebalanced quarterly over a three year time period to September 30, 2015. All evaluated funds were offered an opportunity to review the analysis in advance of its release. View full methodology here.

[7] In the four cases where the fund did not have any companies classified as environmental solution providers, free float market capitalization weighting was used.