

# The Catherine Donnelly Foundation

## A Fossil Fuel Divestment Story

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“We should be examining this”.

Our “aha” moment came during a refreshment break at the 2014 Responsible Investing Conference in Toronto. I along with our Finance Committee chair and our Investment Advisor had been listening to some presentations and discussions that touched on the challenges to transform to a clean energy economy. We were introduced to the risks of a carbon bubble and stranded assets, plus the opportunity of clean technology. We heard about the Carbon Tracker Initiative and the growing fossil fuel divestment movement.

Over the next seven months we explored this further; along the way we tested the arguments at our finance and investment committees. Finally at the end of November 2014 the Board approved divestment from investments in any of the 200 global, publicly-traded companies with the largest coal, oil and gas reserves as listed in the Carbon Tracker Initiative’s “Unburnable Carbon” report. In addition in the expectation that with the right incentives new investment will emerge in green industries, the Board also approved a concerted effort to seek companies investing in renewable energy, other low-carbon fuel sources, energy efficiency and other environmental initiatives that otherwise satisfy the Foundation’s investment quality standards.

### **Engagement**

Recommending divestment is a very unusual proposition for an investor such as the Catherine Donnelly Foundation; engagement with companies is the more typical option. But climate change is an urgent matter and the “business as usual” approach is not sustainable. Divestment is a strategy then to attempt to break the stalemate on climate action. It is one that is gaining momentum around the world in a growing list of committed institutions and individuals.

### **Challenges**

Among scientists there is virtually unanimous agreement that climate change is happening. The consensus is that humanity is largely to blame through the burning of fossil fuels to power our economies and lifestyles. Substantial and sustained reductions in emissions are essential if the world is to restrict the global temperature increase to less than 2 degrees, the internationally agreed target. Even at 2 degrees, a warming that it is anticipated could be reached in 20 to 30 years, there could be widespread food shortages, unprecedented heat waves and more intense storms.

Climate change raises profound challenges of stewardship and ecological and social justice, all of which are of significant concern to the Foundation given its origin in a Catholic religious community, and its environmental focus. No region will be immune to the impacts of climate change but the poorest people and places will be the most vulnerable to its primary consequences. They are also least resourced to adapt to the changes and the least responsible for the predicament we find ourselves in.

At the current rate of temperature increase, a rise of possibly 4, 5 or even 6 degrees by the end of the century is possible. These are considered catastrophic levels for life on Earth and the life systems that support us. We cannot continue on such a path.

Limiting the temperature increase to less than 2 degrees means that two-thirds of the proven coal, oil and gas in proven reserves must remain where they are, in the ground. The consequence is they could become “stranded assets”, which translates to a significant risk to the market capitalization of the fossil fuel companies. The financial markets do not seem to be demonstrating much concern for climate change. There is lots of capital tied up in the current model and the expectation that coal, oil and gas can continue to be produced at today’s level, regardless of the evidence about the causes and consequences of climate change.

### **Action**

Around the world however there are people and institutions taking action. What they are doing gives encouragement to the Foundation to proceed with its plans and validates the concerns and arguments.

For example the Bank of England is conducting an inquiry into the potential economic fallout from the carbon bubble.

The Rockefeller Brothers Fund, part of the Rockefeller family whose fortune was derived from oil, is to exit fossil fuels and invest in clean, renewable energy because it is in their words “astute” business to do so.

The City of San Francisco has urged the trustees of its employees’ retirement fund to divest from the major fossil fuel producers. The city recognized the threat to the San Francisco Bay area physical infrastructure and ecosystems from rising sea levels, and the huge cost to adapt to climate change. It considered divestment the responsible thing to do as a good corporate citizen, not financially harmful and a way to hold fossil fuel companies accountable.

### **Fiduciary**

Divestment is a responsible way for the Foundation to carry out its fiduciary duties. It takes into account financial and social risk. It demonstrates leadership in implementing the Foundation’s responsible investing policy by conveying to the energy industry that it no longer enjoys an unrestricted licence to produce what is a harmful product.

It also adds to the quest to render the Foundation’s financial assets as impactful as possible. The Foundation’s investments are to be the fourth pillar of its activities; a purposeful and accountable complement to the granting in housing, environment and adult education. Recently the Board agreed to dedicate up to ten percent of the Foundation’s portfolio in impact investments. Accordingly the Foundation is looking to invest privately in corporations whose activities will directly further its charitable purposes with maximum social and environmental impact. In April 2014 the Foundation took its first step with a bond purchase in an Ontario solar power cooperative. A second similar investment has been made in 2015.

Earlier in 2012 there was the selection of a new investment manager. His mandate is specifically to manage the funds through a strong socially responsible lens; deciding on what to buy only after due consideration of the relevant environmental, social and governance factors, and then by using external support, engaging with companies and voting shares.

### **New Possibilities**

Being open to the potential for investment in new green industries is an obvious and sensible alternative perspective for the Foundation. Already about five percent of the portfolio is in alternative energy companies purchased in the traditional financial markets. Looking ahead we can surely imagine that the successful companies of the future will be successful precisely because they are focused on servicing a low-carbon economy.

They should be encouraged.

Desmond Wilson  
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