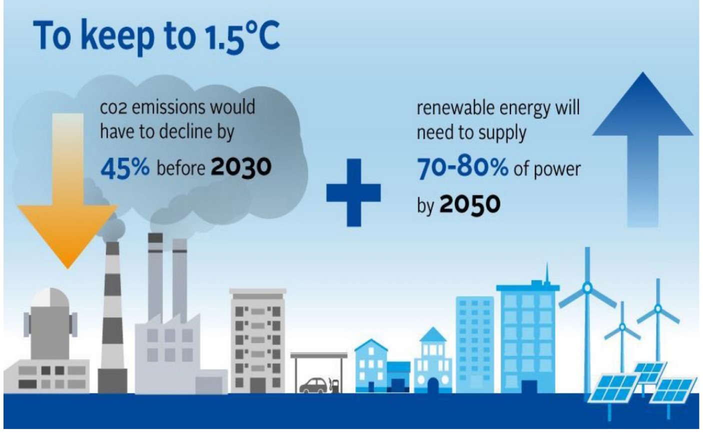
TRILLIUM

Mitigating Risks and Pursuing Opportunities: Fossil Fuel Free Investing

Climate change may be one of the most serious threats of our time. Many Scientists agree that carbon emissions and pollution from burning fossil fuels like coal and oil are the main cause of global warming. In October 2018, the Intergovernmental Panel on Climate Change (IPCC) affirmed the pressing need to limit global warming to 1.5°C above pre-industrial levels to mitigate the most catastrophic impacts of climate change. According to the report, this could be done through "rapid and far reaching" transitions in land use (i.e. agriculture and food), energy (i.e. renewables), industry (industrial emissions reductions), buildings (reduced energy demand for buildings), transport (increase use of low carbon fuels and electricity), and cities (transforming urban infrastructure and systems). These transitions need to occur quickly and will require a global commitment, dramatic political will, and dedicated business leadership to identify opportunities and innovate solutions.[1]



From: The IPCC special report on 1.5°C: key takeaways for PRI signatories

In addition to third party research, our own research indicates the risks of investing in fossil fuel companies.

> "As investors, we see climate change as a risk multiplier that endangers continued prosperity throughout the economy."
> – Elizabeth Levy, lead PM, Fossil Free Core strategy

The economic model of carbon-based energy companies is being disrupted by increasing climate regulation and increasing competition from cleaner renewable energy technologies. As such, fossil fuel companies may be facing a prolonged secular decline. Furthermore, health, safety, environmental hazards, and geopolitical instability amplify these risks.

Trillium has long been aware of these risks, and for 20 years, we have offered our clients the opportunity to divest from fossil fuels. There are four primary reasons to divest:

1) **To align your investments with your value**. Many believe that climate change poses the greatest single threat to our families, our communities, and the world. If you want to keep your assets out of the industry that may be accelerating climate change, then divesting may be the right choice.

2) **To shape public policy and limit influence by energy companies**. Fossil fuel companies have spent millions of dollars to influence legislation in state capitals and Congress. Divesting sends a signal that these efforts are not supported by investors and can erode their political influence.

3) **To potentially reduce your financial risk**. Divestment may reduce your risk of holding stranded—and devalued—carbon assets. Oil, gas, and coal mining companies hold re- serves of fossil fuels that they plan to use. Currently, these reserves are counted as positive assets on a company's balance sheet under the assumption that all reserves will be able to be extracted, sold, and burnt.

4) **To reallocate investment to companies leading the transition to a more sustainable economy**.

By divesting from companies ignoring the costs and risks associated with fossil fuels, you free up funds that can be reinvested in companies that are seeking to identify new market opportunities related to clean energy and the move toward a more sustainable economy.

As a firm dedicated to the transition toward a sustainable economy, Trillium offers three equity strategies that have been fossil fuel free since inception: Global Equity strategy, Fossil Fuel Free Core strategy, and Sustainable Opportunities strategy. These fossil fuel free strategies incorporate environmental, social and governance (ESG) risk and opportunity analysis — looking to remove some risk and seeking opportunity through the exclusion of fossil fuel companies in the portfolios.

> "Choosing a portfolio without fossil fuels creates an opportunity for individuals to add to the financial markets rejecting the fossil fuel industry and to be directly involved in challenging the drivers of the climate crisis."
> – Jonas D. Kron, Senior Vice President
> Director, Shareholder Advocacy

WHY IS REINVESTMENT IMPORTANT?

The other side of divestment is reinvestment— actively investing in companies involved in the transition to a more sustainable economy. Understanding how companies are identifying and managing these climate risks can help determine which ones are appropriate for your portfolio

By not investing in fossil fuel companies, portfolio managers can instead invest in companies with business models benefiting from a more sustainable economy— companies involved in the urgent transitions described in the recent IPCC report. For example, Trillium holds shares of Ingersoll Rand, PLC, a leader in the development of energy efficient heating and air conditioning systems. The company has transparent and bold climate commitments and reports on its sustainability initiatives annually.[2] Ingersoll Rand's efforts are not only based on achieving sustainability goals in its own business, but attempting to change policy in regard to building codes and standards to enable the use of new refrigerants which are less toxic and more efficient.[3]

Management of fossil fuel free portfolios is unique to the manager but data shows that it is possible to produce risk-adjusted returns that are competitive with appropriate broad market benchmarks through a portfolio that does not invest in fossil fuel companies. According to the data available from MSCI, one of the world's leading stock market index and ESG research providers, investors who discarded holdings in fossil fuel companies would have earned an annualized five-year return of 6.93%, compared to 6.09% return earned by conventional investors, based on the MSCI ACWI benchmark performance as of 08/31/19.[4]

By offering our clients three fossil fuel free investment strategies, Trillium actively supports the momentum towards a sustainable transition away from fossil fuels. However, while long-term performance provides a compelling argument for excluding fossil fuels, not every client is ready to embrace the more volatile relative performance (versus the benchmark) over shorter time periods. For this reason, Trillium also offers strategies that are not fossil fuel free. These strategies also integrate ESG analysis, which utilizes both risk-based exclusionary screening and positive factors to help identify the companies we believe are positioned best to deliver long-term investment performance. In fact, all of Trillium's equity strategies are less carbon intensive than their corresponding benchmarks, ranging from 52% to 70% less carbon intensive, as of 9/30/18. Whether investing in Trillium's fossil fuel free strategies, or one of our strategies that include fossil fuel companies, our integrated ESG approach ensures that we consider the significance of climate change in the construction of all portfolios.

SOURCES

1. IPCC, 2018: Summary for Policymakers. In: Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and e orts to eradicate poverty [Masson-Delmotte, V., P.Zhai, H.-O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J.B.R. Matthews, Y. Chen, X. Zhou, M.I. Gomis, E. Lonnoy,T. Maycock, M.Tignor, and T.Waterfield (eds.)]. World Meteorological Organization, Geneva, Switzerland, 32 pp.
2. "Our Client Commitment," Ingersoll-Rand PLC, 2019.
3. "2018 ESG Report: Public Policy Advocacy and Compliance," Ingersoll-Rand PLC, 2019.
4. MSCI ACWI EX FOSSIL FUELS INDEX (USD) Factsheet as of 08/31/19

IMPORTANT DISCLOSURES