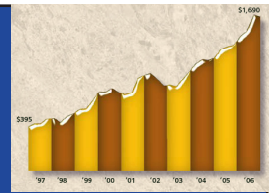




# Climate Friendly Investing

*The University of Washington as a Case Study*



## What is CFI?

Climate friendly investing is the deployment of capital that leads to the direct or indirect reductions of greenhouse gas (GHG) emissions with the goal of achieving strong financial performance.

While there are several options an organization can pursue to engage in CFI, this analysis focuses on capital invested externally in projects, funds or companies focused on reducing GHG emissions.

## Rationale

A variety of reasons exist for why institutional investors are engaging with companies on climate change. Some investors view global warming as an ethical issue and choose to pursue the policy with the aim of increasing social welfare.

Other fiduciaries, representing organizations committed to reducing GHG emissions, participate in shareholder resolutions to reflect their organization's values and advance organizational goals.

Institutional investors also engage companies on climate change because they see potential risks to their investments from climate change or believe there are economic opportunities.

## Analysis

A convincing argument can be made that CFI, regardless of its environmental benefits, is a good financial decision. CFI is a new strategy, however, recent studies have shown, that companies with strong environmental records appear to have better than average stock market returns.

Studies also indicate that companies with high eco-efficiency scores outperformed those with low scores. The strong performance of environmentally managed funds is also evident in assessment of the Dow Jones Sustainability Index, an environmentally managed fund that outperformed the MSCI World Index over the last five years ending August 2006.

## Select Resources

UW Climate Partnership Climate Friendly Investing Assessment. Available: <http://courses.washington.edu/emksp06/uwclimate/index.html>

Robert Repetto & Duncan Austin "Pure Profit: The Financial Implications of Environmental Performance" World Resource Institute, 2000.

John Llewellyn "The Business of Climate Change" Lehman Brothers, 2007.

"Growing Interest in Environmental Issues" Goldman Sachs Portfolio Strategy, 2005.

Michael Russo and Paul Fouts "A Resource-Based Perspective on Corporate Environmental Performance and Profitability" 1998.

Jeroen Derwall, Nadja Guenster, Rob Bauer, Kees Koedijk, "The Eco-Efficiency Premium Puzzle" Financial Analysts Journal V61,N2. CFA Institute 2005.

## Action

### Building Coalitions:

CERES is a non-profit that has launched the Investor Network on Climate Risk (INCR). INCR strives to promote better understanding of the risks and opportunities posed by climate change among institutional investors. CERES is instrumental in forming partnerships across multiple sectors.

### Developing Frameworks for Reporting:

The Carbon Disclosure Project (CDP) is a secretariat for the world's largest institutional investor collaboration on the business implications of climate change. More than 280 institutional investors with assets of more than \$41 trillion signed onto a survey that went to 2400 companies requesting information about the companies carbon emissions.

### Providing Research & Analysis:

Major commercial and investment banks, such as Goldman Sachs, Lehman Brothers and UBS, are advising their clients about the importance of managing the risks and pursuing the opportunities caused by climate change. In addition, a Campus Sustainability Report Card now exists that ranks numerous universities on their campus sustainability efforts, including how well university endowments were managed with respect to endowment transparency, shareholder engagement and investment priorities.

## UW's Endowment

CFI is an issue that is being considered and to varying degrees pursued by major institutional investors, banks and managers of university endowments as a means to manage risks, align investments with organizational values and capitalize on opportunities.

UW's Consolidated Endowment Fund (CEF) totaled \$1.69 Billion in 2006 and is used to support many university programs and functions. Better aligning management of the CEF with UW's environmental and climate goals could have significant, although difficult to quantify, positive benefits while achieving strong or improved performance.

UW might look at Stanford University as an example of first steps to take. In 2000, Stanford University adopted shareholder-voting guidelines that ensure the university will vote in favor of shareholder proposals relating to climate change.

In Partnership with the City of Seattle  
2006-2007 Luce Keystone Project: UW Climate Partnership Team  
Environmental Management Certificate Program  
Program on the Environment, University of Washington