

# Third report to the UUA General Assembly on the 2014 Business Resolution

*Submitted by Tim Brennan, Treasurer & CFO*

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At the 2014 UUA General Assembly, the delegates passed a [business resolution](#) entitled “Fossil Fuel Divestment.” The resolution called on the President and Treasurer to “report to each General Assembly from 2015 through 2019 on our Association’s progress on the above resolutions.” This is the third such report. The 2015 and 2016 reports were presented in GA workshops. This year the report is submitted in written form.

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## 1. Context

### Climate Change: good news and bad news

Which do you want first? Let’s start with the bad. Scientists have recently told us that the West Antarctic ice sheet is melting faster than was previously thought. The New York Times says:

Continued high emissions of heat-trapping gases could launch a disintegration of the ice sheet within decades, according to a [study](#) published Wednesday, heaving enough water into the ocean to raise the sea level as much as three feet by the end of this century.

With ice melting in other regions, too, the total rise of the sea could reach five or six feet by 2100, the researchers found. That is roughly twice the increase [reported](#) as a plausible worst-case scenario by a United Nations panel just three years ago, and so high it would likely provoke a profound crisis within the lifetimes of children being born today.

Meanwhile global temperature increases are rising inexorably. 2016 was the warmest year on record, as tracked by NASA, and 16 of the 17 warmest years in the 136-year record all have occurred since 2001, with the exception of 1998. Take a look at this time series [map of global temperature change](#) over the last century. It powerfully demonstrates how rapidly and dramatically global temperatures are rising.

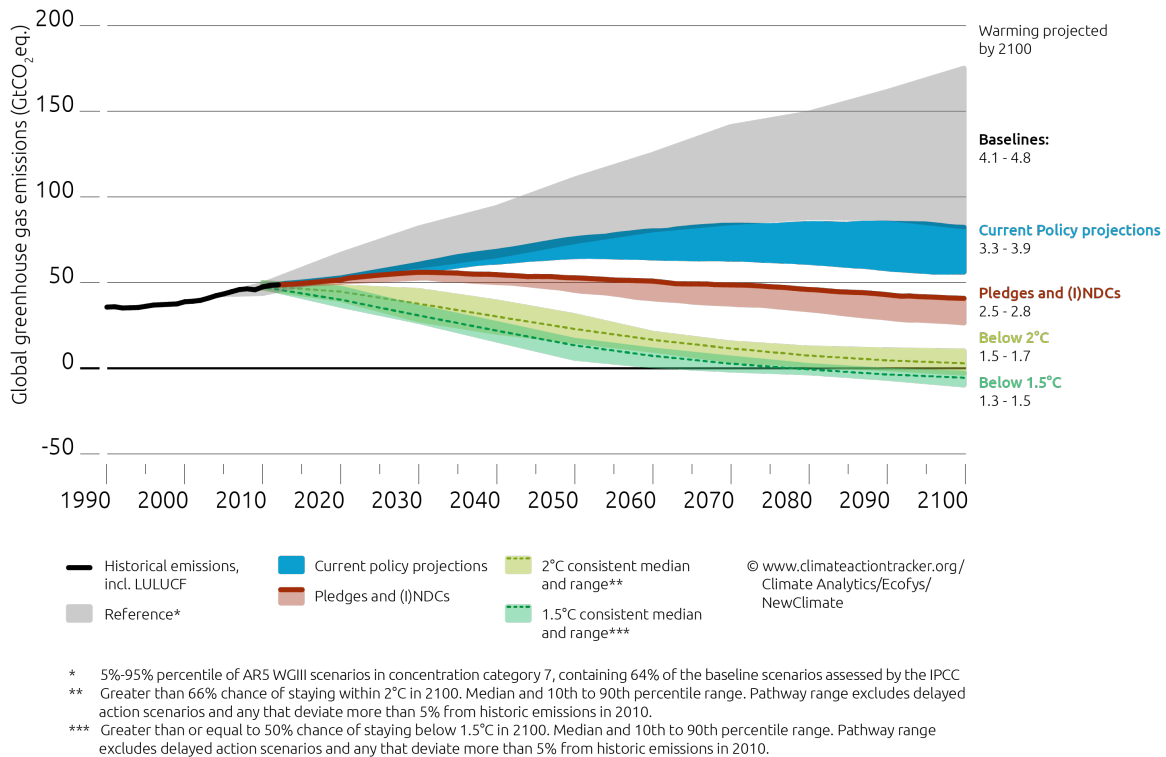
And on June 1<sup>st</sup>, the Trump administration began the process of withdrawing the U.S. from the Paris Accord. But almost immediately following more than 1,100 investors and businesses, along with nine states, over 145 cities, and more than 220 colleges and universities issued a joint statement saying, “we are still in” the Paris Agreement and committed to reducing carbon emissions. “In the U.S., it is local and state governments, along with businesses, that are primarily responsible for the

dramatic decrease in greenhouse gas emissions in recent years,” they wrote in an open letter to the international community and to parties of the Paris Agreement. “Actions by each group will multiply and accelerate in the years ahead, no matter what policies Washington may adopt.” The UUA was a signer of this statement.

But let’s not despair. The progress has been quite dramatic as well. As [reported in the Financial Times](#), the International Energy Agency finds that global greenhouse gas emissions have remained flat for three consecutive years. According to the FT, “A striking drop in carbon pollution in the US, where emissions fell back to what they were in 1992, helped to keep global CO2 levels in 2016 virtually unchanged from the two previous years.” This is quite astounding, especially since there has been significant global economic growth during this period. Just a few years ago prognosticators did not believe this could happen until the next decade. What does this mean? Everything that we have collectively been doing – hybrid cars, LED light bulbs, LEED buildings, closing coal plants, shifting to natural gas, installing renewable energy – has all been working. More than anything, companies’ investments in energy efficiency and renewables are driving down emissions.

And there’s good news coming from China and India too. A report from a UN meeting in May says that China and India should easily exceed their commitments under the 2015 Paris Agreement. China’s emissions of carbon dioxide [appear to have peaked](#) more than 10 years sooner than its government had said they would. And India is now expected to obtain [40 percent of its electricity](#) from non-fossil fuel sources by 2022, eight years ahead of schedule.

The GHG reduction commitments of the 197 countries that signed the Paris accord would limit the global temperature increase to [approximately 2.5 to 2.8 degrees Celsius](#). But that’s not the end of it. Under the Paris Agreement, the commitments of all of the parties will be revisited in 2018 and every five years thereafter at which times countries will be encouraged to revise their commitments and set more aggressive targets. The progress from China and India makes it more likely that commitments will be increased, thus moving the world closer to two degrees, or even 1.5 degrees, the aspirational goal of the Accord.



## 2. UUA Context

The 2014 business resolution specifically addresses the UUA’s investments through the UU Common Endowment Fund. The UUCEF portfolio holds two kinds of assets:

1. Directly held securities – US equities, some international equities, some bonds – comprising about 26% of the portfolio; and
2. Pooled funds – mutual funds, private co-mingled funds – comprising the remaining 74%. Investors cannot choose which companies are included in these funds; they can only invest in the fund or not and exert discretion by what managers they select.

The resolution directed that certain companies – those then identified as the Carbon Tracker 200 (CT200), now called the Carbon Underground 200 (CU200) – be eliminated from our directly held securities over a period of five years. There was an important proviso, however. Recognizing the significant influence held by shareholders, the resolution said that shares of CT200 companies could be retained for the purpose of shareholder activism.

With regard to the pooled funds, the resolution asked that we use our influence to get these fund managers to reduce or eliminate CT 200 companies from the funds.

Furthermore, the resolution directed the Association to move capital towards climate solutions.

Finally, the resolution recognized the importance of fiduciary duty in the management of the assets of others and of funds given in trust.

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### 3. Actions and results: Reducing CU200 holdings

Over the three years since the passage of the business resolution, CU200 holdings have declined from 2.71% of directly held securities to 1.58% by market capitalization. This compares to the S&P 500, which is about 7.5% in energy. Because of the environmental impact criteria the UUA applies in its investment decisions, the endowment has always been underweight in fossil fuels and is now more so than ever.

The UUCEF currently holds 18 of the 200 companies on the CU200 list. (Several more companies are held in the advocacy portfolio.) Our fund managers have been instructed not to add to these positions and not to purchase shares of any other companies on the CU200 list. Thermal coal companies have been entirely eliminated from the portfolio. The remaining positions are held for shareholder advocacy.

CU200 Holdings	2017	2016	2015	2014
As % of direct holdings	1.58%	1.91%	2.65%	2.71%

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### 4. Shareholder Advocacy: Working in coalitions

It is important to understand that being effective with shareholder advocacy requires working in coalition with other shareholders. The UUA is an active member of two investor groups working on climate change.



**Ceres Investor Network on Climate Risk and Sustainability** – INCRS comprises more than 130 institutional investors, collectively managing more than \$17 trillion in assets, advancing leading investment practices, corporate engagement strategies and policy solutions to build an equitable, sustainable global economy and planet.



**Interfaith Center on Corporate Responsibility** - ICCR is a coalition of faith and values-driven organizations who view the management of their investments as a powerful catalyst for social change. Their membership comprises nearly 300 organizations including faith-based institutions, socially responsible asset management companies, unions, pension funds and colleges and universities that collectively represent over \$200 billion in invested capital. UUA treasurer Tim Brennan serves on their board of directors.

Representatives from these groups meet regularly to plan strategy and report progress. Particular companies are selected for specific asks depending on their industry, patterns of behavior, and level of emissions. Investors then step up to take the lead on particular engagements. In order for the UUA to contribute in a meaningful way to these efforts, it is important to have stocks in its portfolio to enable engagement. In any given year, the UUA will not file a resolution with every CU200 company in its portfolio, but it will vote all of its shares at every company on proposals related to climate change.

Shareholder advocacy includes several ways of engaging companies:

- Filing/co-filing resolutions
- High level meetings with company management
- Investor statements and letters
- Proxy voting

### **UUA advocacy efforts in 2016-2017**

Through its holdings in the UU Common Endowment Fund, the UUA engaged with 17 companies on a variety of issues through dialogues, shareholder letters, and the shareholder resolution process, many of these in the oil and gas industry. Issues addressed included climate change, political spending, lobbying expenditures, and corporate governance. These engagements included the filing or co-filing of 15 resolutions.

The focus of shareholders this year was on urging companies to develop strategic plans for a future that is consistent with the Paris Agreement goal of holding the

global temperature increase to two degrees Celsius. The shorthand for this is a “business plan for 2 degrees.” Investors have begun calling on oil and gas companies to assess the resilience of their portfolios to climate- and technology driven shifts in demand, and to disclose how climate risks are being addressed as part of the strategic planning process. This is often referred to as operating in a two-degree world. Ultimately what this leads to is leaving fossil fuel reserves in the ground. As companies have started to adopt this discipline, they have been revising their strategic plans so that they can remain profitable while reducing capital investment in exploration and pumping less oil.

### **UUA advocacy actions**

[\* Shares held in advocacy portfolio.]

#### **Exxon\*** (Lead filer: Dominican Sisters):

- The UUA was a co-filer on this resolution led by the Dominican Sisters and New York State Pension Fund that asked the company to develop a business plan for a 2 degree world. The results were stunning. Fully 63% of the shares voted supported the resolution. This followed the vote the week prior at Occidental Petroleum that resulted in 67% of shares supporting a similar resolution. These are the first two times that resolutions addressing climate have received majority votes. This will have repercussions throughout the industry.
- UUA has participated in several high-level dialogues with top management of the company at which the company has been pressured hard to develop a public plan to operate in a 2 degree world.
- After years of pressure led by ICCR leader Father Mike Crosby of the Capuchins, Exxon appointed a climate scientist to the board of directors.
- During the Trump administration’s deliberations over the U.S. participation in the Paris Accord, Exxon management appealed directly to the president to stay in the agreement, not once, but twice.

**Chevron\*** (Wespath, investment arm of the Methodists): The UUA co-filed a resolution asking for a business plan under a 2C warming scenario was withdrawn after dialogue with company.

**Devon Energy** (UUA): The UUA filed a resolution with Devon calling for disclosure of lobbying on climate change policy. Like many companies, Devon expresses support for policy to address climate change, but at the same time supports trade associations that actively lobby against such policies. The resolution received a YES vote of 26%, up from 21% last year, a very positive result.

**Occidental Petroleum Company** (Needmor): The UUA co-filed a resolution with the Needmor Fund similar to the Devon resolution above. It was withdrawn when the company agreed to a high-level dialogue on the issue. Another

resolution that the UUA supported asking for a business plan for 2C warming received a stunning 67% vote in favor, the first majority vote on a climate resolution.

**Marathon Oil (UUA):** Last year, in response to a resolution filed by the UUA, the company agreed to prepare a carbon asset risk report. The UUA and other shareholders have reviewed the report and intend to engage the company on improving their analysis and disclosure.

**Newfield Exploration (UUA):** Two years ago the UUA filed a resolution at Newfield asking for a scenario-based carbon asset risk analysis. The Company published a sensitivity analysis in its annual 10K report. The UUA and other shareholders will be following up with the company to improve their analysis and disclosure.

**ConocoPhillips\* (UUA):** For the last three years, the UUA has been questioning Conoco’s incentive compensation metrics for executives. A key metric has been reserve replacement ratio (RRR). That means that the executives were being compensated for exploration and development of reserves sufficient to replace everything extracted in a given year. This could have the perverse result of incentivizing executives to expend capital on reserves that may become stranded as the world moves away from fossil fuels. While the resolution only received 6% support this year, the company disclosed in the proxy statement that the company has actually acceded to the UUA’s demand, and has removed RRR as a metric for incentives.

Below is a summary of shareholder actions with the other companies in the portfolio.

<b>Advocacy with other companies in the portfolio</b>				
<b>Company</b>	<b>Issue</b>	<b>Lead</b>	<b>Action</b>	<b>Results</b>
Apache	Methane	Boston Common Asset Management	Ongoing dialogue; meeting 9/16/16	Commitment to reduce leakage
Cabot	Proxy access (2015)	New York City Pension Funds	Voting proxy, finding presenters	46% support
Consol	Proxy access (2016)	New York City Pension Funds	Voting proxy, finding presenters	52% support

<b>Advocacy with other companies in the portfolio</b>				
EOG	Business Plan for 2C Warming Scenario	Boston Common Asset Management	Dialogue	Development of plan
EQT	Proxy access (2015)	New York City Pension Funds	Voting proxy, finding presenters	66% support
<a href="#">Noble</a>	Business Plan for 2C Warming Scenario	Presbyterians	Voting proxy	24% support
Statoil (bond portfolio)	Carbon asset risk	Breckenridge Asset Management	Supporting manager's dialogue	Support for Paris and climate policy
Whiting	Fracking	As You Sow	Voting proxy	Resolution withdrawn
Denbury	No engagement			
Range	No engagement			
WPX	No engagement			
Hess	Ineligible to file			
Pioneer	Ineligible to file			
Chesapeake	Ineligible to file			

For the six companies where there was no engagement or where the UUA was ineligible to file (usually because the value of the stock did not meet filing requirements), the usefulness of these holdings in shareholder advocacy will be reassessed after the shareholder advocacy organizing meetings this summer. If these companies are identified as good candidates for engagement, the UUA may retain these shares.

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## **5. Climate solutions investments**

The 2014 business resolution calls on the UUA to “Invest an appropriate share of UUCEF holdings in securities that will support a swift transition to a clean energy economy.” Over the last several years, the UUA has been active in what is called “impact investing.” This means making investments that have positive social and environmental impact while delivering market returns. Many such investments are categorized as private equity. This means that the investments are not in tradable securities. Typically these investments involve long-term commitments with an



expected return of capital over many years. The UUA's Investment Committee has determined to invest up to 10% of the UUCEF assets in private equity. In addition, the Committee has directed their bond portfolio manager to seek opportunities in green bonds and infrastructure bonds.

To date, the UUCEF has made the following impact investments:

- Brockton Capital Management – a private real estate fund operating in the UK. The company acquires existing commercial real estate and retrofits it to the highest energy efficiency standards, then sells back into the market. The result is substantial reductions in carbon pollution.
- SJF Ventures – a private fund that invests in climate solutions and companies that create jobs and have positive impacts on communities.

These two commitments amount to approximately 4% of the UUCEF assets. The UUA has charged its investment consultant, New England Pension Consultants, with finding appropriate opportunities for investments in private equity with a preference for those that have positive environmental and social impact.

The UUA has joined with other faith-based and mission oriented investors in the Climate Solutions Investment Initiative. CSII is a working group of faith-based, endowment and foundation investors interested in investing in “climate solutions” to support the transition to a low carbon, clean energy economy. This initiative is co-sponsored by Ceres, ICCR and the Intentional Endowments Network. It is co-chaired by the UUA's Tim Brennan and Katie McCloskey of the United Church Funds (United Church of Christ).

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## 6. Conclusion

Even as the threat of climate change grows and its effects become more immediate, the global commitment to address the problem builds. Within the United States companies are recommitting themselves to reducing emissions and planning for a two-degree world. Many corporate leaders tell us that they are in this for the long term, and that changes in public policy from the current administration will not affect their long-term capital investments in renewables and energy efficiency. Without leadership at the federal level, increased engagement from investors and advocacy organizations will be essential to drive the necessary change.

For questions, contact:  
Tim Brennan, Treasurer & CFO  
[tbrennan@uua.org](mailto:tbrennan@uua.org) or  
[treasurer@uua.org](mailto:treasurer@uua.org)  
617-948-4305