Arjuna Capital offers fossil-fuel-free investment strategies across all aspects of our clients' portfolios, from public-market stocks and bonds to private-market equity and debt instruments.

HIGHLIGHT ON FOSSIL-FUEL-FREE INVESTING

As the world faces the stark reality of climate change, investors must come to terms with the risks—and opportunities—climate change poses to investment portfolios. As fiduciaries we recognize the short-, medium-, and long-term impacts of climate change and address them in three ways:

- **Divest** from fossil-fuel investments
- **Engage** with companies to improve efficiency and adaptability
- **Invest** in solutions

DIVEST: FOSSIL-FUEL-FREE INVESTING ACROSS ASSET CLASSES

Arjuna Capital offers fossil-fuel-free investment strategies across all aspects of our clients' portfolios, from public-market stocks and bonds to private-market equity and debt instruments. The choice to divest from fossil fuels recognizes the potentially insurmountable risks facing the fossil-based energy market. These risks include increasing regulation, competition from renewable sources, and a corresponding decrease in long-term fossil-fuel demand. As investors, we also recognize the discouraging trends in corporate responses, ranging from climate denial and lobbying, to a lack of comprehensive transition planning.

That said, fossil-fuel-free investing should not be treated as a blunt instrument. Simply removing fossil-based energy and utility companies from a portfolio is not enough. The freed-up capital must be reallocated elsewhere in the portfolio, and there are strategic considerations that reallocation should address.

For equity portfolios benchmarked to the S&P 500, an index that includes the energy sector, there are tactical moves we've designed to compensate for the absence of energy shares. Suffice it to say that fossil-fuel-free investing isn't just a matter of removing certain pieces from the chess board, if you will. It requires a thoughtful reconfiguration of the entire board.

ENGAGE: PRESSING FOR CHANGE IN CORPORATE BEHAVIOR

For the last five years, our clients have harnessed the power of their share ownership to press for corporate change. Our clients filed the first shareholder proposals asking for more efficient natural gas company operations, to be achieved through disclosing and reducing methane leakage. Natural gas is 90% methane and methane leaks from the time a gas well is drilled to the time that gas is delivered for combustion. Leaked methane is over 80 times more damaging a greenhouse gas than carbon dioxide in the near term. Climate scientists have determined that if more than 3% of methane leaks between wellhead and the point of combustion, natural gas is actually ***worse*** than coal from a climate-change perspective.

As part of our ongoing work on this issue, we recently pressed one of the country's largest utilities, Dominion Energy, to publish its leakage rate annually.

Arjuna has also leveraged the power of our clients' stock holdings in the country's largest oil companies, Exxon and Chevron, to address the existential crisis of climate change, which for oil companies is "carbon asset risk." That is the risk that up to two-thirds of all fossil-fuel reserves could be stranded, unburnable and devalued in the low-carbon future necessary to avoid catastrophic climate change. These oil company engagements are critical to challenge conventional thinking within the companies, to shine a light on climate challenges generally, and to press the companies to transition to a world where global temperatures rise less than 2 degrees Celsius, the threshold that scientists estimate triggers catastrophic climate change.

Our 2014 landmark negotiation with ExxonMobil led to the company's first report on carbon asset risk, and subsequent shareholder proposals have challenged the company's capital investments in high-cost, high-carbon reserves, and their readiness to transition to a carbon-constrained future. This year, our clients have proposals in front of ExxonMobil and Chevron asking for climate-change board committees in order to elevate the significance of this existential crisis to the highest level of corporate deliberation.

INVEST: REALLOCATE INVESTMENT DOLLARS TO CLIMATE SOLUTIONS

As with any secular decline, like that facing the fossil-fuel industry, there is a corresponding opportunity for secular growth. That growth is coming from climate solutions. Our portfolios seek to invest in green innovation through energy efficiency, stewardship of natural capital, green building, sustainable mobility, and renewable energy.

Our private equity and debt strategies direct our clients' investment dollars to groups including New Energy Capital to finance small- to mid-sized solar infrastructure projects. SunFunder, a fixed-income investment in our Income and Impact Fund, also finances solar projects, but for underserved communities in emerging markets. These investments offer outsized social impact and competitive financial returns.

Public stock strategies provide far reaching impact by scaling solutions to some of our most pressing sustainability challenges. Client investments in Silicon Valley Bank finance the bank's portfolio of clean energy investments; investments in Novozymes finance enzymatic solutions to the biofuel industry; and investments in Ingersoll Rand improve the energy efficiency of the built environment, which is responsible for 40% of the energy used and carbon emitted in the United States. These companies' products and services work to transition us to a more sustainable economy and are an essential element of any fossil-fuel-free portfolio strategy.

Natasha Lamb, Director of Equity Research & Shareholder Engagement

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