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On to Greener Pastures: The Landscape of Impact Investing, Divestment Strategies, and How Investors Are Combating Climate Change

January 16, 2019

In Brief

- Two investor-led strategies that seek to combat climate change include impact investing and divestment.
- Impact investments are supporting enterprises in fields such as renewable energy, sustainable agriculture, and resilient infrastructure; divestment strategies are withdrawing financial support from fossil fuel industries.
- Time will tell regarding the effectiveness of these investor approaches to combating climate change.

As individuals and institutions around the world are implementing a variety of strategies to combat climate change, investors are contributing to those efforts with their capital. Although not an exclusive list, two investor-led strategies that seek to combat climate change include impact investing and divestment. The following highlights the key aspects of these approaches.

Impact Investing

Per the Global Impact Investing Network (GIIN), "[i]mpact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return." Notably, these investments provide capital "to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education." With regard to climate change specifically, the GIIN created a Climate Investing Track, which allows investors to focus on areas such as clean energy access and sustainable forestry, and the organization has future plans related to food, agriculture, and resilient infrastructure. Moreover, the GIIN also created ImpactBase, which is an online search tool that brings together fund managers, investors, and the greater impact investing community.

With respect to the origins of the term "impact investing," the Rockefeller Foundation claims to have coined the term back in 2007, and its impact investing team has made a variety of environmental and climate-related investments around the world. It is also worth noting that foundations with impact investing practices, such as the MacArthur Foundation, also fund climate solutions projects through their grant-making programs. (The author gained exposure to worlds of impact investing and climate solutions during a law school internship with the MacArthur Foundation.) Additionally, because foundations play a crucial role in growing the impact investing community, networks such as Mission Investors Exchange are providing these philanthropic organizations with resources and connections to help "increase the scale and impact of their impact investing practice."

Banks and other financial institutions are also facilitating climate-related investments. Goldman Sachs's Environmental Policy Framework, for example, seeks environmental market opportunities related to clean energy, water, and other areas affected by climate change. Other investment vehicles include World Bank Green Bonds, which "specifically focus on tackling climate change issues that directly impact developing countries." These bonds fund projects related to renewables, transportation, water and waste management, land use and forestry, among others. The United Nations also must attract capital to achieve its Sustainable Development Goals, some of which focus on clean energy, climate action, sustainable use of land and sea, and responsible consumption and production. With that said, however, although some investors are deploying their capital to support enterprises mitigating the effects of climate change, others are withdrawing their capital from enterprises contributing to it.

Divestment Strategies

The divestment movement began in 2011 when students at Swarthmore College advocated "that their school divest its billion-dollar endowment out of the largest companies that profit from drilling for and distributing fossil fuels." Since then, this movement that began on U.S. college campuses has spread to 37 countries and has resulted in more than $6 trillion committed to fossil fuel divestment. With over 1,000 institutional investors pledging to divest, a significant amount of capital is on track to be diverted away from the coal, oil, and gas industries.

Nonetheless, questions remain as to the effectiveness of divestment, as well as the fiduciary duties of large institutional investors. In a *Wall Street Journal* article, New York University Professor Paul Tice wrote about the futility of the fossil fuel divestment movement, stating that "[i]n the long run, the effort to starve energy companies of capital will only make the oil and gas sector more attractive to investors." With regard to fiduciary duties, the initial concern of institutional investors—who have a responsibility to maximize financial returns—was that the divestment from fossil fuels stocks might lead to a breach of those duties. With respect to the latter, however, "[t]he mounting financial risks associated with climate change and the prospect that a significant proportion of existing fossil fuel reserves will be stranded have led regulators to be explicit that climate change poses a threat to investor value and that fund fiduciaries have a legal duty to manage this risk."

Finally, a notable alternative (or supplement) to divestment is shareholder advocacy. For example, As You Sow is a nonprofit located in Northern California that helps investors of public companies craft shareholder proposals related to carbon risk, methane reduction, fossil fuel funding, and energy section transition. Unlike divestment of stock holdings, "[s]hareholder advocacy leverages the power of stock ownership in publicly traded companies to promote environmental, social, and governance change from within." Such shareholder engagement exemplifies how environment, social, and governance issues are becoming more material to investors, and standard-setting organizations like the Sustainability Accounting Standards Board are helping those investors find "sustainability data to enhance their understanding of related risks and opportunities." However, with respect to the divestment movement specifically, the key question looms: "What is the goal of such advocacy?" Is it to make fossil fuels companies transform into renewable energy companies, or is the goal to have these companies wind down their business and liquidate the profits to existing shareholders?

Conclusion

As the world tries to mitigate and adapt to changes in the environment, investors are playing a key role in combating climate change. Impact investments are supporting enterprises in fields such as renewable energy, sustainable agriculture, and resilient infrastructure. Alternatively, divestment strategies are withdrawing financial support from fossil fuel industries. Thus, it is evident that investors across the globe are trying to combat climate change, and only time will tell whether these strategies lead to their desired financial, social, and environmental returns.

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Business Law Today, ABA Business Law Section, January 10, 2019.

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