GREENMONEY
Covering Sustainable Business and Investing since 1992
MONTHLY E•JOURNAL

February 2015: Faith and Investing

From South Africa to Climate Change: 45 Years of Leadership by Faith-Driven Investors

By Timothy Smith, Senior Vice President and Director of ESG Shareholder Engagement, Walden Asset Management

The Episcopal Church made history in 1971 when the church filed the first shareholder resolution by a religious organization. The company was General Motors, and the resolution called on the company to withdraw its business in South Africa. It was both church history and business history.

Religious organizations had publicly spoken out against South Africa's repressive system of white supremacy before, but this was the first time that a religious organization had utilized the power of its stock portfolio to raise an issue for a vote by investors. While it was a front page *New York Times* story, shareholder support was unenthusiastic, coming in at around 3 percent voting support. But in that moment, a new tool was created to present social and environmental issues to a company's board and top management.

The Episcopal Church's witness was quickly adopted by a number of other Protestant denominations including United Church of Christ, American Baptist Church, Presbyterian Church, United Methodist Church, Disciples of Christ and National Council of Churches, followed by Roman Catholic organizations. From a few dozen religious investors in the 1970s, today over 300 religious organizations are part of the Interfaith Center on Corporate Responsibility (ICCR) with member assets of over $100 billion.

But that was still to come in the 1970s. At that time, a new era was emerging as businesses were engaged by investors who championed a concern for ethics and corporate responsibility along with a search for shareholder value.

As one might imagine, the earliest company responses countered that church representatives didn't understand business, and that a bank couldn't decide on a loan nor could a company make decisions on where to invest using social or ethical criteria. Within a few short years, however, major banks announced they were ending loans to the South African government because of apartheid. Chase Manhattan, led by David Rockefeller, announced it wouldn't continue loans to the South African government since the bank didn't want their funds supporting government-sanctioned racism.

The anti-apartheid campaigns had a number of notable and complementary component parts:

- The religious community did play a key role but this was a global campaign with a wide array of active participants including universities and unions, foundations and NGOs, strong leadership in the black community and state and city pensions funds.
- Shareholder resolutions were central, with as many as 100 companies receiving them in some years.
- Universities, foundations, some faith groups and many other prominent investors divested their shares in companies with South African investments. The divestment debate itself became an intense campaign, adding pressure on the apartheid regime.
- Boycotts of company products were organized along with campaigns to withdraw money from banks lending to the apartheid government. The United Methodist Women, Riverside Church and Union Seminary withdrew $100 million in accounts from First National City Bank.
- Congress acted as well, pulling tax benefits from companies having South African operations, overturning the veto of President Reagan.
- Demonstrations, sit-ins and civil disobedience added intensity.

In short, the U.S. anti-apartheid campaign focused on the role of banks and companies and included a broad set of strategies. These campaigns started in the early 1970s and went on for over 20 years.

Are there lessons from this campaign for our work on climate change, sweatshops or global health?

One obvious lesson is that changing huge institutions, whether they are governments or companies, takes the endurance of the long-distance runner and works best if we use a range of approaches.

At first some strategies seem to be contradictory and at odds with each other. For example, the divestment and shareholder resolution approaches seem to be polar opposites.

However, looking back to the South Africa campaign, there may have been more synergy between divestment and shareholder engagement than initially thought.

- Both made a common public case for economic pressure on the apartheid government.
- Both highlighted the responsibility of investors to acknowledge their social and financial responsibilities.
- Debates about whether to sell stock or use it led to deeper discussions about the influence of investors and the power of the proxy.
- From a company point of view, the sustained flurry of public attention regarding their South Africa ties sent a powerful message to company boardrooms.
- And from the point of view of the beleaguered South African government, it was opposition that could not be contained, an unwelcome call from around the world for democracy and power sharing.

Is there a lesson here for the vigorous debate occurring today on investments and climate change?

My firm, Walden Asset Management, has a number of individual and institutional clients who are deeply concerned about climate change and have opted to divest from fossil fuel companies.

Similarly, a number of foundations have decided fossil fuel-free investing is consistent with their mission and grant priorities. Further, they intend this decision to send a message to fossil-fuel companies, which they believe are locked into a business-as-usual approach of seeking more and more oil and gas to bring to market.

When Stanford University announced it was selling shares in coal companies, it was both a moment for public education and a stimulus to other investors to evaluate their carbon footprints.

Soon after, David Swenson, Chief Investment Officer of Yale University, wrote a public letter to Yale's investment managers calling on them to "assess the greenhouse gas footprint of prospective investments, and the direct costs of the consequences of climate change on expected returns."

This sober assessment of the effects of climate change on our planet, economy and portfolios has stimulated other investors to produce a powerful investor coalition speaking out on climate issues to government and companies alike. These investors are convinced that engagement is a preferable approach.

Under the umbrella of Ceres, the Investor Network on Climate Risk (INCR) and its investor members engage companies on climate. This is not a small investor coalition. During United Nations Climate Week, investors with approximately $24 trillion in assets under management signed a public statement calling for urgent action on climate.

In December 2014, Ceres announced that over 200 companies working with Ceres had announced their support for the EPA's Clean Power Plan for power plants. Supporters included IKEA, Mars, VF and Nestle.

In addition, in both 2013 and 2014, investors working with Ceres and ICCR, filed resolutions with approximately 100 companies dealing with climate change.

In a dramatic move this year, New York City Pension Funds filed a resolution with a number of fossil fuel companies seeking the right to nominate directors for the board, criticizing the company's lack of responsiveness on climate change.

One lesson to be learned from the South Africa experience is that the combination of those pushing divestment and those seeking engagement could well have an enhanced impact on these companies' thinking and behavior. Both can have a creative role to play.

Article by Timothy Smith, who serves as the Director of ESG Shareowner Engagement at Walden Asset Management (www.waldenassetmgmt.com), *a leader in sustainable and responsible investing since 1975 and a division of Boston Trust & Investment Management Company.*