



# Case Study:

## Fossil Fuel Free Divestment

February 2019

### ISMAPNG Objectives

- Investment

### ISMAPNG Goal

- Manage investments and make investment decisions to support our commitment to sustainable living.

### The Issue

Investment is one of the major themes identified in the ISMAPNG [Sustainable Living Policy](#) that was launched by the sisters in November 2016.

The investment portfolio of ISMAPNG is diversified across multiple asset classes including cash, fixed income, domestic & international shares with a mix of Direct and Indirect investments. Direct investments involve an investment into a specific company's shares or debt securities and Indirect investments are through managed funds/unitised structure where there is no immediate ability to influence/change the underlying investments. The returns from these investments contribute to the operational funds used to provide a wide range of services to the community as part of our mission. The investment portfolio is managed through the Finance Advisory Council (FAC) with proposed changes approved by the Institute leadership Team (ILT).


The existing Governance framework to manage these investments included an approved investment schedule as well as an excluded investment schedule that aligned with Catholic values and provided an ethical overlay to exclude industries such as those involved with :-

- Abortifacients & Contraceptives
- Armaments
- Pornography
- Tobacco

There was also an acknowledgment that fossil fuels should make up no more than 10% of the portfolio mix. Over time the ethical policy has evolved, changed and adapted as values-based discussions and exclusion/inclusion criteria have broadened.

A number of contributing factors led to a process of change such as the wishes of the sisters, the 2017 Chapter statement to embed environmental sustainability across the Institute, the Sustainable Living Policy, Laudato Si, and the Global Climate Catholic Movement with their promotion of a fossil fuel free divestment pledge. This topic had also been on the agenda of the FAC for sometime and this discussion evolved further in the understanding that fossil fuels exposure was just one facet of responsible investing—an approach that, when applied, can help achieve a more holistic sustainable living outcome from an investment perspective.

Commencing in February 2018, a regular meeting schedule was held with ISMAPNG Investment Managers from Crestone Wealth Management, Darren Schutz – Chief Financial Officer and Grant Alleyn from Allegra Wealth (both members of the FAC), along with Chris Hill the Environmental Sustainability Manager to scope a process for a more structured approach to address the sustainability aspects of the investment portfolio.



## **Sustainability Strategy Implemented (Includes excerpts from “A Roadmap to Responsible Investing” - Crestone Wealth Management )**

For many years ISMAPNG’s investment strategy has adopted an ethical overlay that excludes investments contrary to Catholic teachings. Responsible investment is a process that considers investor values including environmental, social and governance (ESG) issues as a core feature of the investment process, specifically in regard to research, analysis, selection, and monitoring of investments. This is further enhanced by corporate advocacy or engagement.

There is a broad array of methods that responsible investors use. These range from excluding companies that are involved in controversial industries, to supporting sustainable and climate-friendly companies, as well as adopting a sharp focus on ESG analysis or using ownership to engage with companies. This diversity and scope of responsible investing allows investors to develop a process that matches their own values and philosophy.

While Catholic values are the driving force for a responsible investment approach, any implications for investment returns is an important issue. Many sources suggest ESG factors are increasingly impacting upon valuations and investment returns. To not consider these factors is a risk itself—but other risks do exist. Diversification, style bias and asset class implications, as examples, can be considered and managed along with traditional investment risks to achieve the desired return objective.

There are a variety of ways to address carbon risks in investment portfolios. An increasing number of individuals and organisations are implementing strategies to address and reduce carbon exposure via divestment, engagement and tilting portfolios towards companies developing clean technology solutions.

Given this background understanding, the first document that was prepared was the “Roadmap to Responsible Investing” and this was approved by the Institute Leadership Team (ILT) at their August 2018 meeting. This strategy outlined a 4 stage process that was agreed to focus on:-

1. Divestment of fossil fuels (exclusionary or negative screening / positive screening / norms based screening)
2. Integration of other Environmental, Social, Governance (ESG) values and ethical factors (inclusive of ESG factors into traditional financial analysis)
3. Sustainability themed Investing (clean energy / green technology / sustainable agriculture and forestry, green property or water technologies)
4. Impact Investing Impact Investing (solving social and environmental problems)

Following the agreement of this 4 stage process the first change process was focused on divestment from fossil fuels. Pursuing a divestment strategy may have multiple objectives, some of which may need to be balanced against each other, including;

1. Sending a clear and strong message to the community with respect to ISMAPNG’s desire to commit to;
  - a. Live Laudato Si’
  - b. The divestment pledge of the Global Catholic Climate Movement
  - c. Implement the stated themes of the Sustainable Living Policy
  - d. Uphold ISMAPNG’s reputation as an organisational member of the Australian Religious Response to Climate Change (ARRCC) - a multi-faith organisation promoting change to reduce carbon emissions.
2. Balancing short and long-term risk and deviation from standard market returns
3. Minimising stakeholder risk through simplicity and ease of implementation



A Divestment of Fossil Fuels paper was then developed and after a number of updated versions it was presented at the November 2018 FAC meeting and after endorsement with minor amendments, was then approved by the ILT at their December 2018 meeting.

### **Tracking Progress**

In line with the guiding principles within the Sustainable Living Policy, it is intended that ISMAPNG will measure and monitor the initiatives that are implemented against all of the objectives.

The process to date has focused on divestment of fossil fuels and the agreed targets to progress this intent from the Fossil Fuel Divestment paper are to achieve the following;

- Make no new investments in the top 200 oil, gas and coal companies globally ranked by the potential carbon emissions content of their reported reserves
- Sell existing investments in the top 200 oil, gas, and coal companies within 3 - 5 years. This includes companies that hold fossil fuel reserves used for energy purposes and/or whose principal business revenue is derived from direct fossil fuel activities.
- Invest in climate solutions, such as renewable energy, energy efficiency, sustainable agriculture, water efficiency and more within 3-5 years.

#### Portfolio Targets for Equities (1 – 3 years)

- Exclude investments in the top 200 oil, gas and coal companies
- Exclude companies with > 5% exposure by revenue to fossil fuels in direct investments
- Maintain a carbon footprint < 20% of the benchmark

#### Portfolio Targets for Equities (3 years +)

- NIL exposure to fossil fuels in direct investments
- NIL exposure to fossil fuels in any indirect investments
- NIL exposure to fossil fuels across the entire investments portfolio
- Maintain a carbon footprint < 20% of the benchmark
- Continue to invest in climate solutions, such as renewable energy, energy efficiency, sustainable agriculture, water efficiency and more.

These targets will become part of the updated Investment policy and are just the initial step toward a lower carbon portfolio. The wording will be revised annually to ensure ISMAPNG target carbon reductions that are meaningful going forward.

### **Next Steps**

This approach for stage one of Fossil Fuel Free Divestment was approved at the Institute Leadership team meeting in December 2018. With this approval, work towards the above mentioned targets commenced immediately and during January 2019 the top 200 companies from the domestic portfolio were excluded, and a similar process for the international investments commenced.

Appropriate reporting mechanisms will be established and will be managed through the FAC to monitor progress towards these targets.

Given this stated position, ISMAPNG, through Institute Leader Sr Eveline Crotty, in late January 2019 committed



publically to the Global Catholic Climate Movement pledge and joined over one hundred faith based organisations leading this change.

<https://catholicclimatemovement.global/divest-and-reinvest/commitment/>

During 2019, further work will continue to address the remaining three points of the “Roadmap to responsible Investment” paper of:-

- Integration of other Environmental, Social, Governance (ESG) values and ethical factors (inclusive of ESG factors into traditional financial analysis)
- Sustainability themed Investing (clean energy / green technology / sustainable agriculture and forestry, green property or water technologies)
- Impact Investing Impact Investing (solving social and environmental problems)

This case study will be updated as progress is achieved against these strategies.

### **Challenges and lessons learned**

On reflection, a lesson learned for the decision to divest was that there had been a variety of support for such a move from various parts of the Institute and the Catholic faith. Laudato Si’, the Chapter Statement to embrace environmental sustainability, sisters’ wishes, and acknowledgement that this issue had been on the agenda of the FAC, all provided ample support for action. So, while this issue was talked about for some time in different parts of the organisation and within the wider community, it progressed as our Institute was ready to act on the momentum of that time. This reflects that an alignment of intent and management support were both required to action this significant change.


Another lesson to be learned is that ISMAPNG already had a well established investment practice in place with trusted advisors who were able to lead ISMAPNG through the process while identifying and highlighting issues of concern. This was complimented by our own internal positions from the FAC, Finance and Environmental Sustainability to ensure internal needs were being addressed as part of the process.

A challenge to be addressed is while Catholic values and organisational intent are driving forces for a responsible investment approach, any implications for investment returns is an important issue. These issues need to be understood and considered to ensure risks are not magnified in a responsibly invested portfolio. Having professional Investment Managers to identify and address these concerns with reputable industry research and benchmarks was essential for a successful implementation.

### **Demographic information**

The Institute of Sisters of Mercy of Australia and Papua New Guinea (ISMAPNG) is a community of Catholic Religious Sisters in Australia, Papua New Guinea and further abroad. Whatever and whenever our ministry is, we are part of the one Mercy mission, part of the ongoing mission of the compassionate Jesus. In furthering our charism, we partner with thousands women and men as employees, associates and volunteers. Together we have a proud and continuing history of serving people suffering from injustices related to poverty, sickness or lack of education.

- 15,000+ people
- 750 Sisters of Mercy
- 225+ Institute staff members

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- 11,000 ministry partners
  - 3,000+ ministry volunteers
  - 350 Mercy associates
  - 32 Young Mercy links
  - Assisting 210,000 persons annually

## Links

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## References

- Sustainable Living Policy November 2016
- A Roadmap to Responsible Investing – Crestone Wealth Management June 2018
- A Roadmap to Responsible Investing – Project 1 – Divestment of Fossil Fuels (Equities) Crestone Wealth Management October 2018
- Laudato Si

## Quotes:

### Sr Mary Tinney

*“Congratulations to those involved in the process for advancing the commitment of ISMAPNG members and partners in ministry to addressing issues arising from having investments in companies which contribute to the degradation of planet Earth. This commitment is now translated not only into strategy and objectives but also into implementation and the point where we can make public our progress. The other vital aspect of return on investment for ministry is also being considered. I am proud to be part of these developments. “*

### Laudato Si - 165.

*We know that technology based on the use of highly polluting fossil fuels – especially coal, but also oil and, to a lesser degree, gas – needs to be progressively replaced without delay. Until greater progress is made in developing widely accessible sources of renewable energy, it is legitimate to choose the less harmful alternative or to find short-term solutions.*

**Keywords / topics:** Investment / Divestment

**Creation date:** February 2019