# Mouths Where Their Money Is

By Emily Gertz

**NEW YORK, N.Y.**
Yesterday, nearly 400 people met at the United Nations headquarters to talk about changing the world. They were upbeat and enthusiastic about their power to get corporate America's attention, and to demand that it take climate change seriously. And not just take it seriously, but do something about it.

Who were these people? Global activists? International diplomats? No. They were American state treasurers, city and state comptrollers, and managers of pension and mutual funds, joined by a smattering of their European colleagues. They gathered for the second Institutional Investor Summit on Climate Risk, cosponsored by the United Nations Foundation -- established by billionaire Ted Turner in 1998 to support U.N. causes -- and Ceres, a Boston-based investor-environmentalist coalition.

These financial managers collectively control trillions of dollars in investments in U.S. public corporations, and are responsible for seeing to it that millions of retired steelworkers, teachers, state employees, and others do not wake up one day and find themselves not just elderly, but poor. As far as these professionals are concerned, climate change is creating huge investment risks -- but it also holds the potential for enormous financial rewards. It is their professional responsibility to see to it that U.S. corporations deal with both.

The world makes money go 'round.
And the world, to some extent, seems to be counting on them. "You are essential to our ability to slow climate change and mitigate its worst effects," U.N. Secretary-General Kofi Annan told the summit via a taped greeting in the morning. "You are accustomed to thinking big, and thinking long term," he said, perhaps implying that these were qualities not shared by U.S. policy makers.

"Climate change will impact our investments," said Denise Nappier, treasurer of Connecticut, who cochaired the summit with Tim Wirth, the green-leaning former Colorado senator who is now president of the U.N. Foundation. Eventually, said Nappier, climate risk will join the many traditional measures financial managers like her consider when looking at an investment, but right now, it's a risk factor that most American corporations are ignoring, making it hard to evaluate how much they may be affected.

Although concern about the environment seemed to unite many of the summiteers, "this is not an environmental conference," Nappier declared. "Today is not about our planet's well-being. It's about our economic health. We're learning that they're intertwined, but today, it's all about the money." She added that "climate change is already presenting intriguing and attractive opportunities for those of us in the investment business."

This is language that fund managers and the corporations they invest in are professionally required to give serious attention to, whatever their green sympathies: the language of financial risk and return.

Green Suits Take the Baton from Tree-Huggers

In the morning's first session, Harvard scientist John Holdren outlined basic climate-change anxieties with brevity and lucidity: glacier melt, sea-level rise, extreme weather, baking cities, disappearing species, etc. Subsequent speakers translated these phenomena into the language of ethical and profitable business, touching on topics like price-earnings ratios for companies exposed to risk from the changing climate and returns on investment in clean technology and carbon credits.

The message, in short: market forces are stepping forward to break the policy-making impasse on global climate in the United States. The message underneath: sober financial professionals in very well-tailored suits are taking on actions and initiatives that make them more akin to -- and perhaps ultimately more effective than -- the last couple generations of tree-huggers in setting the U.S. on a course toward sane climate policy. The excitement and energy at yesterday's meeting -- the sure knowledge that change was happening and those present were part of it -- was unlike anything one might experience these days at a gathering of eco-activists.

Paul O'Neill, secretary of the treasury during President Bush's first two years in office, followed Holdren by drawing lessons from his years as an industrialist to illustrate how climate risk could become investment opportunity. O'Neill was chair and CEO of Alcoa, the world's biggest producer of aluminum, from 1987 to 1999, and led the company in major reductions in its greenhouse-gas emissions while boosting efficiency and productivity, reducing worker injuries to near-zero, and instituting fully transparent reporting to investors and the public on these and a host of other factors. His words set a tone of enlightened corporate leadership that the summit attendees seemed hungry for: "I think responsible leaders in this country will respond to the idea of a sustainability template ... there are billions of people today who are born into a life of no hope, and have no hope. Our generation should be the one that makes sure that changes."

During follow-up comments, Robert Monks*, a pioneering shareholder activist, expressed his frustration at the lack of leadership from the U.S. Securities and Exchange Commission in getting corporations to report on and respond to climate risk. "I am a corporate governance enthusiast," he said, "but when I listen to John Holdren speak, I'm filled with frustration, because what he says has the ring of truth, and I cannot get [his] speech put in to the prospectus of the publicly traded American company. I cannot bring it to the attention of the shareholder."

David Hawkins, a climate specialist at the Natural Resources Defense Council, wondered how much progress could be made without the managers of corporations in the room agreeing to report fully on climate risks.

However, the investors felt they could bring both corporations and the SEC into line without waiting for action from above. Richard Moore, the treasurer of North Carolina, disagreed directly with Hawkins. "The management of those companies are not here, but the owners are," he said, generating applause. "I think if there's anything we've learned over the last few years, it's that if we're asking for disclosure, if we as owners, if we as customers demand a level of service from the people that we do business with, we will get attention. One of the things we've learned over the last few years is we don't have to depend on the SEC. We don't have to wait on the SEC. If we are selective in the targets that we pick, if we are reasonable in the information that we are asking for, I dare people to tell us no."

Is he right? Very recent history seems to say: yes.

Nearly every presenter yesterday intoned the words "GE announcement," referring to General Electric's "ecomagination" initiative, unveiled just a day earlier. GE's public, voluntary commitment to effect a 1 percent reduction in greenhouse-gas emissions (as opposed to a 40 percent increase under business as usual) and a 30 percent improvement in energy efficiency by 2012, to double its investments and returns in clean-energy technologies by 2010, and to report publicly on its progress toward these goals seemed to uphold the idea that, ratification of Kyoto or no, U.S. corporations are going to have to deal with climate risk if they want to stay in business.

GE's step certainly buoyed Ceres' own report on its progress in pricking up the ears of corporate boards. Walking its own talk on transparency, the group distributed a 22-page report on "Investor Progress on Climate Risk." In the 18 months since the first Investor Summit in 2003, this group of institutional investors has:

- Increased the number of participants in its U.S.-based Investor Network on Climate Risk from 10 to 43, with total assets growing from $600 billion to $2.7 trillion.
- Made $450 million in new, direct investments in clean technologies.
- Filed 30 global-warming shareholder resolutions with North American companies in 2004 (25 with U.S. companies and five with Canadian). By comparison, in 2001 there were about six such resolutions filed with U.S. companies. Called upon major greenhouse-gas-emitting companies and boards to disclose more information about the financial risks of climate change, and their plans to mitigate those risks.

Call Me, Anytime ...

The day's centerpiece was the announcement of a joint U.S.-European investor call to action on "managing climate risk and capturing the opportunities." Over two dozen institutional investors representing four continents, 15 countries, and a collective $3 trillion-plus in assets have signed on to a 10-point action plan that calls for U.S. companies and Wall Street firms to make assessment of climate-change risk an integral part of their asset assessment and reporting, and to work with investors on reducing those risks.

For their part, the institutional investors intend to put $1 billion of their collective assets into solid clean-technology investments, pursue shareholder resolutions with U.S. corporations on better reporting and management of climate risk, develop reporting standards, and continue to build their international network. Their mantra is engagement with corporate America, not divestment from it.

The plan doesn't ignore government completely. One point calls on the SEC to require that companies disclose their climate-change risks as part of their filings with the commission. Asked about this, Ceres President Mindy Lubber (who during the morning session had described how the company insuring her Cape Cod cottage had unilaterally cancelled the policy, saying that it would no longer handle any properties at sea level), noted that the SEC says it already requires disclosure of material risk. In a meeting with Ceres, the SEC stated that if investors informed it that companies were not doing this, the commission would look at the situation. Not exactly a resounding commitment, but the fact that the meeting happened at all seems encouraging.

When Al Gore presented the afternoon keynote, the crowd's good mood bubbled over into a standing ovation. The former U.S. vice president is now chair of Generation Investment Management, an investment firm formed late in 2004.

Generation has set out to merge traditional financial analysis with social, environmental, and geopolitical factors, to establish the competitive advantages of sustainability.

"We're all here because there is an enormous policy vacuum," said Gore. "The business community, the insurance companies, the pension funds, the institutional investors are stepping forward with leadership from you all, because those who should be stepping forward have not."

Citing "short-termism" -- the intense pressure to generate quick results -- as the biggest problem facing investors, Gore called the institutional investor summit "audacious" for taking on this entrenched system. "This really needs to be done," he said. "And if nobody else is going to do it, then those who find themselves as stewards of assets that have to be invested over the long term, in order to safeguard the responsibility that comes from long-term liability, you have to step up to the plate and say, 'I'll do this.'"

"It's hard, because the instruments and the tools that you naturally have at your disposal are not necessarily the ideal instruments and tools for solving this problem," he said. "But don't underestimate how powerful your instruments and tools and your abilities can be in actually solving this problem."

"John Holdren's presentation talked about some tipping points in the environment," Gore continued. "I know there are tipping points in the political system also, globally and nationally." When a company like GE reorganizes itself around "ecomagination," Gore suggested, we're nearly at that point. "It is time to take the businesslike, common-sense, difficult but necessary steps to shift the perspective and integrate the data, and start acting in ways that are fully in step with your fiduciary responsibilities," he said. "And don't let anybody suggest that it cannot be done."

*[Correction, 13 May 2005: This article originally misattributed Robert Monks' quote to David Hawkins.]