Trending divestment movement could mean big opportunity for Canada's fossil-free investors

"The portfolios did as well, if not better," says Wayne Wachell, Canada's father of fossil-free investing

Wayne Wachell , CEO and founding partner of Genus Capital, helped develop one of Canada's first fossil-free funds in 2013. He says once Canada catches up with Europe and the U.S., the opportunity is big.

Depending on whom you ask, the divestment movement is either a passing fad led by radical environmentalists with a misguided sense of loyalty or a growing trend sparked by informed and pragmatic investors looking to align their investments with their values.

No matter where the truth lies, it's estimated more than 500 institutions representing more than $3.4 trillion in assets have made some form of divestment commitment, shedding holdings of companies directly involved with extracting fossil fuels (oil, coal and gas). They include the Bill and Melinda Gates Foundation, Boston University, Rockefeller Family Fund, Church of England, Canadian Medical Association and the City of San Francisco.

The movement encourages investors to not only divest from fossil fuel but to reinvest those assets in cleaner solutions that promote renewable energy.

For the conservative investor, that may sound like a big ask. But for Canada's "father of fossil-free investing," Wayne Wachell, it has both ethical and financial implications. Wachell is CEO and founding partner of Genus Capital, an independent investment management firm based in Vancouver that manages $1.2 billion in assets for universities, cities, foundations and retail investors. The firm also developed one of Canada's first fossil-free funds.

Like any other social movement, divestment happens in waves, Wachell says. The first wave is led by church and activists, the second by universities and other public institutions, while the third sees the involvement of the mass market. Canada has completed the first wave and is witnessing universities dip their toes in, he says.

For 23 years, Genus has been managing ESG (environmental social governance) or socially responsible investments (SRIs). Then, three years ago, a client, the David Suzuki Foundation, approached with a unique request. The Foundation had always followed strict principles of ethical investing, refusing to support weapons, tobacco or companies that violate human rights. But it was time to go a step further, deputy CEO Andrea Seale said.

"We saw that we could take a meaningful stand against climate change through our investments," she said. "We asked Genus to take us completely out of any companies involved in the extraction, production and transportation of fossil fuels."

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Wachell established Genus Fossil Free in 2013, and has found there is an emerging market for such investments, Seale noted. In the past three years, Genus successfully divested $225 million from fossil fuels, encouraging a shift of investments into renewable energy and other funds better aligned with their values.

It's not just an ethical decision, Genus's recently released Fossil Fuel Divestment Report shows. "The portfolios that were fossil-free did as well, if not better, in the marketplace," Wachell said of the results.

A significant takeaway from the report is that oil company results can be replicated with other sectors — technology, financial, consumer and material. "I didn't think (the results) would be that good; it's encouraging and positive," he said. "We don't need hydrocarbons to get performance, and the market is coming around to that perspective."

The message to investors is clear: Your portfolio can align with your values at no cost to performance or your investment goals.

“Our returns continue to outperform the benchmarks. It’s as simple as that,” affirmed Rebecca Hurowitz, executive director of Clayoquot Biosphere Trust (CBT), which manages a $17-million endowment fund to protect Clayoquot Sound, a UNESCO Biosphere Reserve.

CBT initially invested in a Genus SRI fund and was eager to jump on the next wave. “As part of the UNESCO program, it’s incumbent on us to think at the local level but also to see how our local impacts have a broader role as global citizens. So it really is entirely fitting for us to be fossil-fuel free.”

As endowment clients, the CBT is a pretty conservative investor, Hurowitz said. Which makes the fossil-free fund’s lower volatility a bonus.

Independent financial planner Tim Nash, an authority on socially responsible and green investments, nudges his clients toward Genus, especially since it opened its pool of funds to smaller investors. He also says fossil-free investments are gaining ground but that perceived risk is a limiting factor.

Two trends that strengthen the divestment thesis are the increasing consumer demand for ethical and sustainable products, and increasing government regulations on the environment, with cap-and-trade on Ontario’s horizon and national carbon pricing not far behind. “We’re going to see a lot more regulations coming and the markets haven’t adequately priced that in,” Nash noted.

“We have this perception that somehow it’s riskier to divest, but the reality is that if we understand the transition that’s happening, one of the riskier things you can do is own carbon assets,” he added.

Besides, the perceived risk — albeit understandable for Canadians reliant on the fossil fuel industry for so many years — doesn’t take into account actual data and performance.

In the past five years, investors have had better results after divestment, Nash said. That’s because fossil fuels on the whole have underperformed, and green technologies — with the exception of higher-risk renewable energy technologies — have done well. Broader clean tech, water infrastructure and renewable energy utilities have done very well in the last while.

As we have recently seen, when the fossil-fuel economy declines, so does the economy, pulling down with it Canadians' earning potential. A prudent investor, so goes the argument, wouldn't double down on that overexposure but hedge their risk through divestment and alternative solutions that are on the path to growth.

Of course, it's not a one-size-fits-all solution, which is why Wachell has six pools of funds in this area. And lest anyone think sustainable investing ignores a traditional financial analysis, that's not the case. "We're just looking at it through this other lens, which we think gives us a better perspective about how [a given] company will do in the future," Nash said.

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Elisa Birnbaum is the publisher and editor of SEE Change Magazine.

elisa@seechangemagazine.com

Twitter.com/ elisabirnbaum