

# THE PRINCETON PACKET



SOLUTIONS

By Huck Fairman

## Wall Street leaders seek sustainability in light of climate change

A sea change is coming, and I'm not referring to that happening to the oceans. Founder and CEO of Blackrock, Lawrence D. Fink, will be announcing that his investment firm, the largest in the field, with close to \$7 trillion under management, will be fundamentally changing its investment policy – making sustainability a core goal.

The repercussions of this refocusing could reach throughout the investment world to other money managers, and also to corporations across the nation, and even the world.

In Fink's annual letter to the chief executives of the largest companies – a letter that is yearly carefully digested by them – announced that BlackRock will begin relinquishing investments in those companies that “present a high sustainability risk,” such as coal producers.

His purpose is to encourage companies of every stripe – not only energy firms – to rethink their carbon footprints. And this, he anticipates, will fundamentally reshape finance, and very possibly many companies relying on finance – in short, a majority.

Why is he making this shift? He writes, “The evidence on climate change is compelling investors to reassess core assumptions about finance.”

As part of this reshaping, Blackrock will (a.) introduce new funds that “shun fossil fuel-oriented stocks,” will (b.) vote against managements that are not progressing on sustainability, and will (c.) urge companies to formulate plans to help realize the Paris Climate Accord's efforts to limit global warming.

While not always leading on social issues in prior

years, Fink has the influence to change conversations in boardrooms around the world. And now he is warning the world that this climate crisis is the most profound challenge to be faced in decades.

He writes, “Even if only a fraction of the science is right today,” what we are facing is a long-term, structural crisis.

Those following global trends know that the changes to our natural world are not only exceeding, but are accelerating past, recent scientific predictions.

While Fink is a longtime Democrat, he claimed that his decision was strictly business.

“We are fiduciaries ... Politics isn't part of this.”

Other industry observers point out that BlackRock has, up until now, lagged behind on this issue, and has had “among the worst voting record on climate issues.”

This record makes Fink's announcement a real departure and perhaps an acknowledgement of where the world is in relation to the climate crisis.

While some climate activists will see this refocusing as falling short of what is needed, it is likely that BlackRock's shift will pressure other financial managers to change their own strategies.

Indeed, last month more than 600 investors around the world signed a letter pressing governments to increase their responses to climate change. Unfortunately, most large American firms did not sign on (This though America leads the world in per capita emissions).

“The New York Times” reports that had Fink taken this action a decade ago, his clients would have reaped,

in a 500 Index investment, a near triple gain, and not the mere 2% gain that the energy sector managed.

The sources that influenced Fink's decision to consider sustainability included scientists but also business leaders and available research. He conceded that many repercussions from climate change are already visible, in terms of higher insurance premiums, and higher bond costs, as well as higher water levels.

And around the world, he reported, climate change is almost always the No. 1 issue for clients. As a result, he expects major shifts in the focus of financial allocation much sooner than predicted. And, he sees the next generation, as it matures and takes power, will further reshape investment priorities.

He lamented the fact that the Trump Administration is going in the opposite direction on so many policy decisions. And he may well see his new approach as part of private sector's effort to compensate. He also warned that because of its size, BlackRock cannot immediately sell all investments in fossil-fuel companies.

“The science does not exist to replace many of today's essential uses of hydrocarbons. We need to be mindful of the economic, scientific, social and political realities of the energy transition.”

But he does intend to push fossil fuel companies to eventually transition to renewable energy, and to do so fast enough. He promised to “vote against them,” if they do not.

As Fink's announcement reverberates, it could provide the impetus needed to embrace the many policies necessary for our survival in the world we have known.