Testimony of
John K.S. Wilson
Vice President, Director of Corporate Engagement
Calvert Research and Management

The Senate Committee on Environment and Public Works Subcommittee on Clean Air and Nuclear Safety

"Reducing Emissions While Driving Economic Growth: Industry-led Initiatives."

October 17, 2019
9:30 AM

Chairman Braun, Ranking Member Whitehouse, and Members of the Committee, thank you for the invitation to testify before you today. My name is John Wilson and I am Vice President, Director of Corporate Engagement at Calvert Research and Management, an investment management firm based in Washington, DC that invests across global capital markets. Calvert is a subsidiary of Eaton Vance Management, a leading global asset manager based in Boston.

Our firm sponsors one of the largest and most diversified families of responsibly invested mutual funds, encompassing active and passively managed equity, fixed income, alternative and multi-asset strategies. As of September 30, 2019 across our portfolios, we held more than 5800 securities from over 5000 issuers in developed and emerging markets. We seek to generate favorable investment returns for our clients by allocating capital consistent with financially material environmental, social and governance issues and through structured engagement with portfolio companies.

Climate change is an urgent issue for us as fiduciaries because investment returns generally depend on a robust and growing economy. The U.S. Government's Fourth National Climate Assessment makes clear that unchecked climate change could reduce economic activity in each of several U.S. sectors by hundreds of billions of dollars by the end of the century.[1] In emerging markets, a lack of resources available for adaptation to changes in the physical environment may exacerbate the risk of economic disruption from civil conflict and mass migration in addition to the costs associated with physical changes to the natural environment. We believe our investment portfolios will be exposed to these risks within the coming decades – well within a typical investment time horizon.

Our approach to managing exposure to the risks of climate change includes an evaluation of the climate policies and performance of the companies we invest in as one element of our overall investment analysis. This assessment is well-grounded in the empirical evidence. A recent meta-analysis of 32 studies found negative correlation between carbon emissions and financial performance[2]. This stands to reason – in many industries where these issues are material, lower greenhouse gas emissions correlate with more efficient operations, forward thinking product strategy, and better engagement of employees, many of whom care deeply about this issue.

---

[1] https://nca2018.globalchange.gov/
[2] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3225953

Calvert first identified climate change as a financially material investment risk as early as the 1990s, when the scientific consensus on climate change was taking shape. We began to engage with corporations with the express objective of improving enterprise value through better management of climate-related risks. At that time, only a few investors had identified climate change as a major concern, and many companies were expressing reluctance to accept the reality of human-caused climate change.

Today, support for action on climate has become a mainstream position for investors and companies. 360 investors with $36 trillion under management have joined the *Climate Action 100+*, a five year initiative to engage the top greenhouse gas emitting companies in dialogue about how they can drive a transformation toward a clean-energy economy and achieve the goals of the Paris Agreement.

Increasing numbers of investors are seeking opportunities to invest directly in climate solutions, such as through a mechanism called "green bonds," or fixed income securities that allow investment into projects with positive environmental benefits. The green bond market has grown from $37 billion in issuances in 2014 to $168 billion in 2018, a sign of rapidly growing investor interest in this area.[3]

On the corporate side, nearly 7000 companies world-wide now report on carbon emissions and mitigation strategies to the Carbon Disclosure Project (CDP), the most comprehensive database of this information in the world.[4] According to CDP, the 215 largest global companies alone report over $1 trillion of capital at risk from climate impacts, many of which may be realized in the next five years.[5]

A newer reporting standard that emphasizes forward looking strategic reporting, promulgated by the *Task Force on Climate-related Financial Disclosures,* now has over 700 supporters with assets of $118 trillion under management, including private sector, public sector, and central bank supporters.

645 global companies have joined *The Science Based Targets Initiative*, a joint program of CDP and the United Nations Global Compact, and have agreed to set goals for reducing greenhouse gas emissions. Some examples of industries making commitments to major transformations of their business models include: At least 17 U.S. utilities have pledged to cut emissions by 80% or to provide 100% carbon-free energy by 2050; all major automotive companies are investing heavily in low-or no-carbon transportation and committing to expand their lineup of electric powered vehicles; and technology companies are dramatically reducing greenhouse gas emissions, primarily by powering their data centers with renewable energy.

Despite the efforts being made on all sides, we find a clear consensus among both investment professionals and corporate executives that voluntary efforts will not be enough.

At the moment, business incentives are misaligned because those responsible for the emission of greenhouse gases do not bear the costs of climate-related harms such as extreme weather events, drought, and sea level rise. Instead, these costs are borne by us all.

For this reason, many investors support policies such as a carbon tax to better align the real costs of climate change with those parties responsible for the emission of greenhouse gases. A coalition of 515

---

[3] https://www.climatebonds.net/market/explaining-green-bonds
[4] https://www.cdp.net/en/research/global-reports/global-climate-change-report-2018
[5] https://www.cdp.net/en/articles/media/worlds-biggest-companies-face-1-trillion-in-climate-change-risks

institutional investors with $35 trillion under management have promulgated a *The Global Investor Statement on Climate Change* urging world governments to enact enabling policy to meet the goals of the Paris Agreement, in part by helping to accelerate sound business investments into the energy transition. [6]

A clear policy signal would allow investors to better quantify the economic implications of climate change on investments and more efficiently allocate capital to investments suitable for the low-carbon economy. For companies, policy clarity would help to overcome the pressures of short-termism that sometimes hamper long-term innovations. We observe, for example, that a mix of subsidies and requirements has helped to incentivize the research and development that has rapidly brought the price of wind and solar energy down, and improved access to clean and renewable sources of energy.

Both corporations and investors can make important contributions to the public dialogue about climate change policy. We are concerned that some companies have failed to align their public policy engagements with their long-term business strategies to invest in climate solutions. In response, Calvert and 200 other investors with $6.5 trillion under management forwarded a letter to company CEOs calling on them to harmonize their lobbying activities with the goals of the Paris Agreement.

The letter asks companies to develop governance procedures to ensure consistency between long-term business strategy and public policy engagement, including both direct engagement as well as lobbying by intermediaries such as trade associations and social welfare organizations. We are pleased that some of these third parties have recently expressed increased support for action on climate change. Yet, we are concerned that continued resistance to progress may undermine their own members' investments in climate solutions and destroy shareholder value in the long run.

Even more concerning than the inconsistency in industry positioning, though, is the lack of leadership in U.S. climate policy. Rather than supporting investors and companies' efforts to make economically rational long-term investment decisions, the federal government is moving in the opposite direction – first by initiating steps to withdraw from the Paris Agreement, and more recently by seeking to block states' efforts to address the issue.

A failure of the U.S. to address climate issues could impact U.S. competitiveness with countries that are supporting research, development and dissemination of the next generation of technologies and solutions. Investors and companies across the globe are collaborating with the public sector to address the risk that carbon poses to portfolios and long term business investment. The absence of the U.S. government leadership from this partnership ensures that these technologies and solutions will arise elsewhere.

We urge this Committee to support legislation that will allow key economic actors to rapidly scale existing efforts to address the significant risks posed by climate change.

I would like to again thank the Committee for allowing me the opportunity to share my perspectives on these important topics. My sincere hope is that this forum provides an opportunity for constructive dialogue on how to ensure that the capital markets have the best information and incentives to manage the uncertainties related to climate change. Inaction threatens not only to hinder portfolio returns but also to undermine economic growth and broad prosperity.

---

[6] http://theinvestoragenda.org/wp-content/uploads/2019/09/190916-GISGCC-for-UNCAS.pdf