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Fossil-Free Investment for a Just Appalachian Transition

Obstacles and Opportunities

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INTRODUCTION

The growing movement for divestment from fossil fuels and investment in more sustainable, fossil-free and lower-carbon opportunities has important ramifications for the transition of the Appalachian region away from its historical dependency on coal and other extractive industries. The economic reality of Appalachian coal's collapse, particularly in the context of the shale gas boom, is forcing the region through a major structural readjustment, with accelerating job losses and economic distress in coal communities. Many local and regional actors are working aggressively to ensure that this "Appalachian Transition" away from coal dependency is also a "Just Transition," one that builds resilient communities, creates local wealth, and stimulates good jobs in diversified economic activities that sustain natural systems rather than undermine them. Numerous efforts on the ground, notably among practitioners applying the WealthWorks model of rural value chain development, have encouraged alternative forms of economic development in more sustainable sectors such as green affordable housing and residential energy efficiency, local food and agriculture systems, sustainable forestry and wood products, creative industries, tourism, healthcare, light manufacturing, and renewable energy, among others.[1]

At the same time, many institutions across the country, including colleges and universities, religious congregations, foundations, pension funds, and asset managers, are weighing the prospect of divesting from fossil fuels – in response to one of the fastest-growing divestment movements in recent history. Eliminating fossil fuels from their portfolios is seen by many divestment campaigners as both a moral imperative and a way to bring the urgency of climate change to the attention of the public and government alike. While this strategy may seek to mobilize awareness about global climate change, divesting from fossil fuels poses certain complicating questions as well, especially from the more local and regional perspective of communities most heavily dependent upon coal. For local actors long aware of the problems that coal dependency imposes upon the region, fossil-fuel divestment presents a potential opportunity to diversify Appalachia's economy. And for organizations and enterprises working in clean, sustainable businesses, fossil-free investing could be a source of capital to help finance a more just economic transition. For others in the region, however, divestment can appear more as a threat, especially when it is perceived as exacerbating the social dislocations associated with the collapse of increasing numbers of bankrupt coal-mining concerns. Divestment consequently creates strategic social dilemmas that need to be addressed.

This paper, commissioned by the Mountain Association for Community Economic Development (MACED), explores the relevance of divestment for the Appalachian Transition. It serves as a discussion document for the upcoming webinar on divestment and reinvestment in Appalachia on December 4, 2014. Participants will primarily include local and regional actors who have a stake in the development of a longer-term blueprint for a regional "reinvestment ecosystem" focused on

[1] For an overview of WealthWorks, see www.wealthworks.org.

sustainably transitioning the region from coal. The paper provides background on divestment trends as well as insights into the diverse ways that various kinds of investors are approaching fossil-fuel divestment and fossil-free reinvestment. Over the course of this inquiry, which began in late January 2014, we have reached out to nearly three dozen different investors and their advisers, interviewing investment decision-makers from 18 institutions and firms that are grappling with fossil-fuel divestment and are interested in the idea of reinvesting in Appalachia. We focused our outreach primarily on foundations, faith-based investors, financial advisers working with individual clients, and investment consultants and impact investment firms working with institutional investors. Based on this research and outreach, we analyze the potential opportunity that divestment presents for place-based reinvestment into frontline communities in the region. While we found considerable interest in investing in the region to support the transition, numerous obstacles stand in investors' way. We therefore identify many of the leading obstacles and make several recommendations for overcoming them.

Throughout our research and analysis, several dominant themes emerged:

1. While fossil fuel divestment is a rapidly growing phenomenon, with commitments estimated at some $50 billion in assets under management as of this writing, the reinvestment of these fossil-free assets will remain a much smaller portion of the total divestment universe.

2. Because investors have a hard time finding place-based investments, and are reluctant to make place-based investments outside their own locality, place-based investing will be a small component of the reinvestment opportunity. There are opportunities for fossil-free place-based investing, but few of these are explicitly in the divestment-reinvestment space.

3. The majority of investors, even those engaged in socially responsible investing and fossil fuel divestment, continue to pursue market-rate returns on their investments.

4. A smaller number of investors are nevertheless willing to accept concessionary financial returns, if there is a compelling social and environmental impact story behind the investment and if products are easily accessible and convenient.

In sum, while some of the investors associated with the divestment movement could be convinced to make place-based investment in Appalachia, the scale of this opportunity currently remains limited. Attracting investment at scale to the region from either the divest-reinvestment space or the broader community of sustainable, responsible or impact investors would require easier access to products, with both lower transaction costs and reliable near-market rate returns. Nevertheless, the rapid pace of growth that the fossil-fuel divestment has experienced over the course of this very inquiry suggests that short-term opportunities, even if limited, should be pursued, and that longer-term opportunities may arise if the obstacles we identify can begin to be addressed.

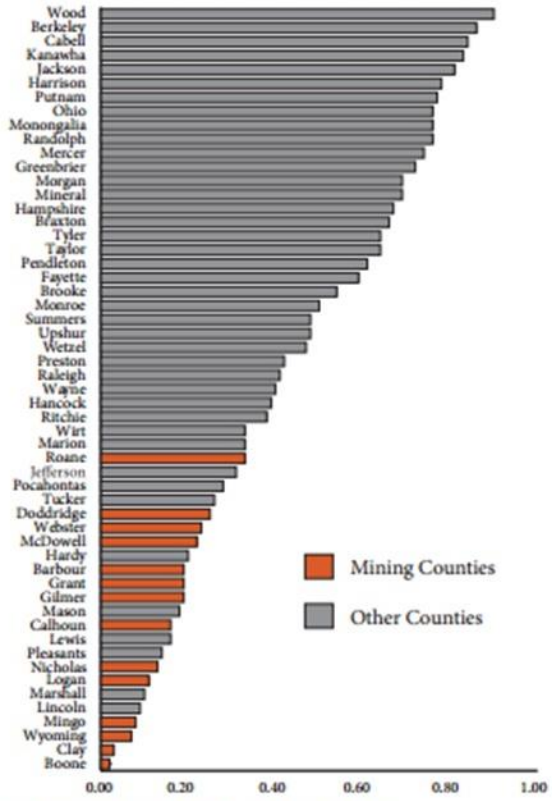
In the sections that follow, we provide 1) a deeper background discussion of the decline of Appalachian coal, the dilemmas of divestment, and the emergence of more resilient reinvestment opportunities, 2) an analysis of the way the various kinds of investors we researched are approaching divestment and place-based investment, and 3) key takeaways with recommendations for how local actors could potentially capture divested assets by addressing obstacles that investors encounter when considering place-based, fossil-free investment alternatives. These same actions have the potential to make place-based investment more generally appealing to the broader socially responsible investment universe.

BACKGROUND

COAL'S DECLINE AND THE DILEMMAS OF DIVESTMENT FOR APPALACHIA

Coal mining has dominated the central Appalachian economy since the late nineteenth century, when growing demand for the commodity during the aftermath of the Civil War transformed the region's largely isolated, mountainous agrarian economy into a destination for domestic migrants and European immigrants who poured into the region to work in the mines. The expansion of railroads facilitated this explosive movement of populations into Appalachia and the export of coal from the region. At the turn of the twentieth century, Appalachia provided more than 80 percent of the nation's coal supply, besetting the region with what many call a "resource curse." Although rich in natural resources, the region's overreliance on the extraction of a non-renewable resource has left its population under-resourced to respond to coal's rapid and recent decline. Meanwhile, coal communities must live with the consequences of coal mining, which has degraded both the environment and the economy and stymied investment in alternative futures. The literature on Appalachia's resource curse has highlighted how coal communities suffer from lower per-capita incomes, higher rates of family poverty, lower levels of educational attainment, and worse health outcomes than non-mining communities, and their local

Figure A. Economic Diversity in WV Counties

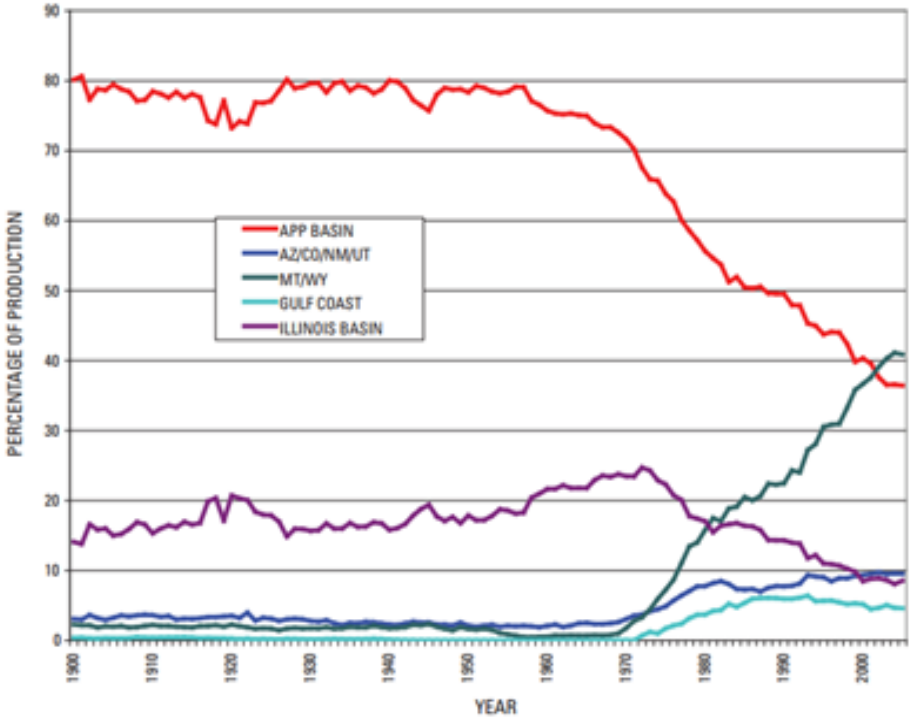


Source: Census Bureau, County Business Patterns, 2008.

economies have lower levels of economic diversity. (See Fig. A.) With more than two thirds of the surface area of Appalachia held by absentee corporations and landowners, those who live in coal-dependent communities find themselves disempowered to make decisions about land and resource use, magnifying the challenges of moving to more diversified and sustainable economic alternatives.[2]

Throughout the first half of the twentieth century, Appalachia produced 75-80 percent of the nation's coal, as Figure B highlights. However, the region's market share has steadily declined since 1955, and by the turn of the twenty-first century, the coal basins of Montana and Wyoming had displaced Appalachia as the leading coal-producing region, with more than 40 percent of the market. Today, Appalachia accounts for 29 percent of coal produced in the United States, and continues to decline as many of the most accessible, low-cost deposits are past their peak or have already been depleted.[3] This has resulted in the loss of more than 38,000 jobs in West Virginia and Kentucky since 1983. Despite a small rise in 2009, employment and earnings in these states are predicted to decrease an additional 25-30

Figure B. Percentage of national coal production from the major coal-producing regions of the US



Source: US Department of the Interior

[2] These dynamics are well documented in Sustainable Energy Economic Diversification, Coal River Mountain Watch (accessed November 2014); John Gaventa, "The Political Economy of Land Tenure: Appalachia and the Southeast," University of Wisconsin-Madison, 1995, p. 5; Ryan McCarthy, "Why Abundant Coal May Have 'Cursed' the Appalachian Economy," *Washington Post*, 27 August 2014; Sean O'Leary and Ted Boettner, "Booms and Busts: The Impact of West Virginia's Energy Economy," West Virginia Center on Budget and Policy, July 2011; and Stratford Douglas and Anne Walker, "Coal Mining and the Resource Curse in the Eastern United States," white paper, December 2013.

[3] "Where Our Coal Comes From," Energy Information Administration, 2014.

percent over the next decade.[4]

The natural gas boom has had an undisputed effect on the acceleration of Appalachian coal's decline, though with uneven impacts across the region. Vast deposits of shale, including portions of the Utica and Marcellus shale basins that extend into Appalachian Ohio, West Virginia, and southwestern Virginia, have driven the price of natural gas to levels low enough for power plant operators to shut down existing coal plants or retrofit them to run on natural gas. While some (including some sustainable investors) view natural gas as a "bridge fuel" that will aid in a transition to a less carbon-intensive economy, the business of natural gas extraction does not provide a long-term solution to the social dislocation and environmental disruption associated with the transition away from coal. Instead, it merely reinforces the resource curse, generating short-term jobs and financial benefits mainly for outside employers and employees at the expense of other forms of wealth that communities often need to re-build, particularly the natural capital that these types of operations deplete. Bitter local debates over fracking have also sown community tensions between segments of organized labor, like plumbers and pipefitters, and environmentally concerned residents, worried about water, public health, food and farm safety, and climate change. Fracking provides at best a short-term fix to much more entrenched long-term problems of economic diversification.

Several prominent national organizations have committed substantial resources to hasten "the end of the coal era." Beginning in 2011, the Sierra Club and Bloomberg Philanthropies implemented a major $50 million "Beyond Coal" Campaign in an attempt to prevent new coal power plants from being built and to retire old ones. This campaign unites grassroots activists across the country to organize their local communities to retire one-third of the nation's coal power plants by 2020.[5] Recent EPA rules are supporting the trend toward shuttering the dirtiest coal plants. Although within coal-producing states one frequently finds bipartisan political opposition to these kinds of tightened regulations against the industry, numerous grassroots and community-based organizations within the region have viewed the secular decline of coal as an opportunity to remake power relations and to overcome the historical legacies that coal companies have often imposed upon the region.[6] Nevertheless, in conversations with leading organizers and investors supporting the Beyond Coal campaigns, we learned that few had felt the labor question related to the loss of coal-related jobs had been adequately addressed, and that branding coal a pariah while honoring the local culture and traditions of coal-mining communities is a tight rope to walk. Current and retired mineworkers in the region face severe risks of losing their pensions. The United Mineworkers of America's pension plan, which serves over 100,000 mining families, is currently underfunded due to the legacy of the financial crisis and increasing numbers of bankrupt mining

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[4] Brad Plumer, "Here's Why Central Appalachia's Coal Industry is Dying," *The Washington Post*, 4 November, 2013; and Rural Support Partners, "Entrepreneurial Appalachia: Case Studies in Evolving Economic Sectors," Appalachian Regional Commission, November 2013.

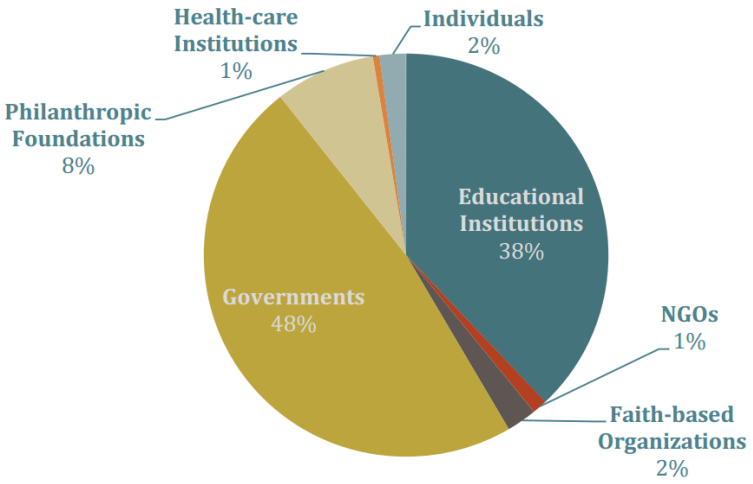
[5] "About Us," Beyond Coal, *The Sierra Club*.

[6] Paul Hibbard, *et al.*, "EPA's Clean Power Plan: States' Tools for Reducing Costs and Increasing Benefits to Consumers," Analysis Group, July 2014; and Neela Banerjee, "12 States Sue the EPA over Proposed Power Plan Regulations," *The Los Angeles Times*, 4 August 2014.

companies that can no longer contribute to these funds.[7] To date, no union pension funds have committed to fossil-fuel divestment. As we discuss more fully below, many outside investors were consequently eager to consider investments that carried a story that involved more durable job creation and retraining in coal-mining communities.

However, in light of coal's precipitous decline, investors are increasingly fleeing companies overly dependent on the sector, many with large footprints in the region. Over the course of this year, the financial case for divestment from coal has gained considerable ground. Standard & Poor's Rating Services has warned of the risk of stranded assets in coal, due to carbon constraints. In a recently released report on carbon supply cost curves by the Carbon Tracker Initiative, central Appalachian coal faced the highest breakeven price of all coal-producing regions in the country, making companies doing business in the region easy targets for investors seeking to mitigate carbon risk.[8] Similarly, Bloomberg New Energy Finance has recently highlighted the relatively limited impact that divesting from coal stocks would have on institutional portfolios.[9] Several of the prominent institutional investors that have announced their commitment to divestment earlier this year, including Stanford University, the Rockefeller Brothers Fund, and the Russell Family Foundation, focused exclusively on divestment from coal companies.

Figure C. Total Assets Divested by Sector ($50 billion)



Source: Arabella Advisors

From Fossil-Fuel Divestment to Fossil-Free Investment

Fossil-fuel divestment is frequently associated with the work of climate activists at 350.org, the organization co-founded by environmental writer and activist Bill McKibben and a group of students at Middlebury College where he teaches. In a *Rolling Stone* article that went viral in the summer of 2012, McKibben called for colleges and universities to divest from the 200 largest oil,

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[7] Brad Plumer, "As Coal Industry Declines What Will Happen to All Those Retired Miners?" *The Washington Post,* 7 March 2013.

[8] Elad Jelasko, et al., "Carbon Constraints Cast a Shadow Over the Future of the Coal Industry," Standard & Poor's Ratings Service, July 2014; and Carbon Tracker Initiative, "Carbon Supply Cost Curves: Evaluating Financial Risk to Coal Capital Expenditures," September 2014. In a similar vein, see David Roberts, "Goldman Sachs Says Coal-Export Terminals Are a Bad Investment," Grist.org, 29 July 2013.

[9] Nathaniel Bullard, "Fossil Fuel Divestment: The $5 Trillion Challenge," white paper, Bloomberg New Energy Finance, August 2014; and Mike Scott, "Coal to Be Hardest Hit by Fossil Fuel Divestment Campaign," *Forbes*, 26 August 2014.

gas, and coal companies, invoking the 1980s divestment campaigns from Apartheid South Africa.[10] However, McKibben and 350.org amplified existing fossil-fuel divestment organizing. Indeed, some of the first demands for divestment were made by students at Swarthmore College outside Philadelphia, who visited Mountain Top Removal (MTR) coal mining sites in Appalachia in 2010 and decided to demand divestment in solidarity with frontline communities affected by environmentally destructive coal mining practices. Swarthmore Mountain Justice, as the student organization became known, consequently called for divestment from the "Sordid Sixteen," a list of some of the worst fossil-fuel companies.[11] Soon afterward, a diverse group of civil society organizations came together to support the organizing efforts at Swarthmore and numerous other college campuses. The coalition published a "Coal Divestment Toolkit," targeting a list of the "Filthy Fifteen" dirtiest coal-mining companies and coal-fired utilities.[12]

Though often construed as a financial tool to hit the fossil fuel industry's bottom line or companies' share price, divestment was seen by climate activists as a political strategy to revoke the industry's social license to operate. For many campaigners, divestment is more a moral imperative than a financial strategy, with the goal of making the fossil-fuel industry a public pariah. As McKibben put it in a later piece in *Rolling Stone*, "The logic of divestment couldn't be simpler: if it's wrong to wreck the climate, it's wrong to profit from that wreckage."[13] The quote has become a commonly refrained slogan of the movement.

However, analysts and institutional investors increasingly recognize the genuine financial risks that climate change poses to investors. The fossil fuel divestment campaign has thus reached investors motivated by fiduciary duty, as well as by moral purpose.[14] Although initially pushed by student activists and their allies, divestment has now become a mainstay conversation in board rooms, on investment committees, and in leading financial industry conferences. And increasing numbers of investors – large and small – are making commitments to divest from fossil fuels in some shape or form. Beginning with a handful of relatively small New England private college endowments in late 2012, divestment pledges have accelerated to include larger endowments, including Stanford University's, with more than $18 billion in assets; major west coast cities such as San Francisco, Oakland, Portland, and Seattle; numerous religious congregations including the United Church of Christ and the World Council of Churches; growing numbers of philanthropic foundations, most notably the Rockefeller Brothers Fund; and a lengthening list of individual investors. Arabella

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[10] Bill McKibben, "Global Warming's Terrifying New Math," *Rolling Stone*, 2 August 2012.
[11] Swarthmore Mountain Justice, "Institutional Memory Document, 2011-2012," Swarthmore College, August 2012.
[12] Corinne Bendersky, et al., "Coal Divestment Toolkit: Moving Endowments beyond Coal," n.d. [2011-12]. The coalition included As You Sow, the California Student Sustainability Coalition, Coal Swarm, Energy Action Coalition, Green Corps, Responsible Endowments Coalition, the Sierra Club and the Sierra Student Coalition, the Sustainable Endowments Institute, with support from the Wallace Global Fund.
[13] Bill McKibben, "The Case for Fossil-Fuel Divestment," *Rolling Stone*, 22 February 2013.
[14] Since 2003, for example, the environmental organization Ceres has organized an Investor Network on Climate Risk (INCR), which now includes 100 institutional investors with combined assets of more than $11 trillion. INCR has not officially endorsed divestment, but its president Mindy Lubber has called it "a timely issue" and INCR's founder Bob Massie, now the outgoing president of the New Economy Coalition, has been a leading proponent of divestment right alongside McKibben. See Lubber, "Fossil Fuel Divestment Is a Timely Issue for Investors," *Forbes*, 17 December 2012.

Advisors, a philanthropic consulting firm, has recently estimated that more than $50 billion in combined assets from 181 institutions and more than 650 individuals have been committed to some form of fossil-fuel divestment. Figure C shows the total assets divested by sector.[15]

Investors are clearly grappling with the divestment issue and arriving at a variety of different positions on it. Some highly engaged investors, particularly in the sustainable and responsible investment (SRI) community, remain committed to holding fossil fuels and engaging with those companies as shareholders. Others, echoing 350.org and McKibben, see little on which to engage with companies whose fundamental business model involves carbon extraction. This "divestment vs. engagement" debate has been bitterly divisive among SRI and faith-based investors, although efforts are emerging to transcend what some see as a false dichotomy.[16]

At the same time, increasing numbers of investors grappling with divestment are turning to the question of investment, i.e., into what fossil-free alternatives should they be investing. With the Divest-Invest Philanthropy initiative launched earlier this year, foundations have become some of the first investors to articulate their commitment to divest from fossil fuels as part of a larger pledge also to invest, or "re-invest," in climate solutions and a new energy economy. In other words, they are not simply selling off their fossil fuel stocks and bonds, but also proactively seeking investments in better alternatives to fossil fuels. The nature of this investment remains very loosely defined. Reinvestment opportunities have been described as ranging from sustainable publicly traded companies to cleantech private equity and venture capital, from green bonds in fixed income to sustainably managed forestland in real asset allocations. We ourselves have entered these debates, putting forward multiple scenarios for divestment and reinvestment across multiple asset classes commonly found in diversified investment portfolios.[17] Even for those investors grappling with divestment that ultimately elect not to sell off fossil fuel holdings, the investment proposition holds considerable appeal. Increasingly, we have found that many investors reluctant to divest nevertheless want to "do something" to show their stakeholders, participants, clients, and beneficiaries that they are pursuing some form of positive solution to climate change and related social and environmental challenges.

The reallocation of fossil-free investment portfolios consequently presents a potential opportunity for place-based reinvestment into Appalachia to support the region's Just Transition away from coal. In order to capture that opportunity, Appalachian actors need to understand the rapidly changing divestment landscape and insert themselves more forcefully into these conversations

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[15] "Measuring the Global Fossil Fuel Divestment Movement," Arabella Advisors, September 2014.
[16] Carbon Tracker Initiative, "Gone Fishing: Divestment and Engagement," (accessed November 2014). We are actively involved in encouraging this reconciliation, most recently through the Impact of Equity Engagement (IE2) initiative. See Christi Electris, *et al.*, "The Impact of Equity Engagement: Evaluating the Impact of Shareholder Engagement in Public Equity Investing," Croatan Institute, November 2014.
[17] Joshua Humphreys, "Institutional Pathways to Fossil-free Investing: Endowment Management for a Warming World," Tellus Institute, May 2013.

about fossil-free investment.[18] At present, the broader environmental community has expressed concerns about "frontline communities" affected by the decline of coal, fossil-fuel extraction, and climate change. The question is whether that concern can be channeled into badly needed investment—and if so, on what scale.

The question is difficult to answer, but suffice it to say the size of this opportunity is clearly not equivalent to the full $50 billion in assets under management of the investors that have made commitments to divest. Only a small fraction of those diversified investment pools could ever be allocated to geographically targeted community investments. At present, few investors are even aware of place-based approaches to fossil-free investing – in part because few actors are making a vocal or compelling case for them. Most divested portfolios are focused on selling off the stocks and bonds of publicly traded fossil-fuel companies, and much of the conversation about pro-active investment focuses on equity investments.[19] Some investors beginning to re-allocate assets into fossil-free portfolios have re-allocated five percent of their portfolios to cleantech venture capital and private equity (dominated by companies in Silicon Valley-style innovation clusters). Others have allocated fixed-income positions into market-rate community investing vehicles such as Community Capital Management's (CCM) CRA Qualified Investment Fund, a fixed-income mutual fund.

Community investing institutions may be an important vehicle by which to direct "fossil-free investment" into Appalachia. Most community investments, such as CCM's funds, are fossil-free by default even if they do not invest explicitly in "climate solutions" or the "new energy economy." The precise size of this specific opportunity for Appalachia is difficult to quantify, but given the rapid growth of divestment, the increasing attention being placed on fossil-free investment, and the real interest we have heard from investors in our inquiry, we think it merits deeper investigation and on-going monitoring. After all, the assets associated with fossil-fuel divestment have nearly doubled during calendar year 2014 alone, from approximately $27 billion to more than $50 billion.[20] Ultimately, the financial needs of a fossil-free investor are little different from those of most other sustainable and responsible investors who are concerned about the social and environmental impact and purpose of their investments. Whether they fully embrace divestment or not, sustainable investors often want to mitigate carbon portfolio risk, on one hand, and use their investments to support positive social and environmental outcomes, on the other. Meeting the needs of fossil-free investors can therefore have the added benefit of expanding Appalachia's access to SRI investors more broadly. Ultimately, we are increasingly convinced that this is the greater opportunity: overcoming obstacles repeatedly voiced by the investors involved in our consultations

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[18] It will be critical to catalog and assess the potentially investable opportunities in the region in order to determine their suitability and capital needs; however, this work was beyond the scope of this initial inquiry.

[19] "Extracting Fossil Fuels from Your Portfolio: A Guide to Personal Divestment and Reinvestment," Trillium Asset Management, Green Century, and 350.org, 2013.

[20] Our research team has measured the scope of US investment assets affected by fossil-fuel divestment at the outset of 2014 as part of our contributions to the Report on US Sustainable, Responsible, and Impact Investing Trends 2014, US SIF Foundation, November 2014.

would potentially unlock friendly forms of finance to support a just transition of the Appalachian economy away from its historical dependency on coal.

Many of the investors with whom we spoke noted the appeal of place-based investments that could provide compelling counter-narratives to the dislocations associated with the decline of coal: investments that supported retraining workers for new job opportunities in sustainable, regenerative businesses and diversified sectors. As we shall see below, some investors placed greater emphasis on environmental features; others prioritized the social impact of an investment. Many expressed an interest in seeing investments that address both environmental and social issues. The WealthWorks value chain projects that have been developed in Appalachia repeatedly provide examples of these counter-narratives. Groups such as MACED, FAHE, Rural Action, ACEnet, Appalachian Sustainable Development, and the Natural Capital Investment Fund are doing important frontline economic development work in value chains such as local food and farming, sustainable forestry, green affordable housing, energy efficiency, and clean energy. After all, the WealthWorks model consists of eight different forms of wealth that value chain enterprises aim to create: political, individual, cultural, social, built, intellectual, financial, and natural. The coordinators of these value chains have documented these efforts and could use them to measure progress for each of these forms of capital in quantifiable ways. These measures could help narrate a story of environmental and social change that mission-driven impact investors as well as philanthropic funders increasingly want to hear.

In addition to activity around WealthWorks value chains, numerous efforts in other sectors across the region could provide potential candidates for place-based investment that would hold genuine appeal to investors grappling with divestment. Healthcare, light manufacturing in textiles, on-shoring of technology and other services, "creative economy" industries, value-added food processing, and clean energy production and services are among potential areas already witnessing activity in the region. They stand ripe for further development. According to the American Wind Energy Association, for example, West Virginia has an estimated capacity of nearly 1,900 MW of wind power that could supply more than 18 percent of the state's electricity needs.[21] These are precisely the types of opportunities that many of the investors with whom we spoke are interested in learning more about. We now turn to our analysis of investors' perspectives on divestment and place-based investment.

INVESTOR VIEWS ON DIVESTMENT AND PLACE-BASED INVESTMENT IN APPALACHIA

Our analysis of investor's views on investing in Appalachia has been deeply informed by the research, assessment and technical assistance our research team members have conducted as part

[21] "West Virginia Wind Energy," American Wind Energy Association.

of the wider WealthWorks community of practice since 2012. We have also conducted high-touch interviews with 18 different investor groups specifically for this study. We focused our attention on four targeted groups:

1) Foundations
2) Faith-based investors
3) Investment consultants (working with institutional investors)
4) Individuals and their financial advisers.

In the sections that follow we provide insights into the diverse ways that these four key groups of investors are grappling with divestment. After analyzing each group in turn, we then pull out several over-arching themes that emerged from our research and consultation with these groups of investors.

FOUNDATIONS

Over the course of this year, philanthropic foundations have become one of the most actively engaged types of institutional investors making commitments to fossil-fuel divestment. With the Divest-Invest Philanthropy initiative, launched in January 2014, a group of 18 foundations began explicitly seeking to invest in a new energy economy. The number of foundations that have accepted the Divest-Invest challenge has more than tripled to 71 foundations with $4.2 billion in combined total assets. A new wave of foundations publicly announced their commitments at the UN Climate Summit, which occurred on September 23, 2014, in New York City.[22]

The Divest-Invest Philanthropy foundations are highly diverse, ranging from small foundations with fewer than $1 million to larger family foundations such as the Rockefeller Brothers Fund with nearly $1 billion in endowment assets. The nature of their commitments to divest and invest also varies widely. The Ben and Jerry's Foundation was one of the few foundations that viewed community investment as an active part of its commitment, and initially it was unclear whether their CDFI investments would "count" toward the "investment" side of the Divest-Invest commitment since these were community investments rather than investments in "clean energy" or "climate solutions." We have strongly encouraged community development finance to be considered as an integral part of fossil-free investment solutions.

However, a number of factors make it complicated for the Divest-Invest Philanthropy foundations to channel their reinvestment dollars into Appalachian community investment institutions. Many of the foundations are constrained from making place-based investment in Appalachia because they focus community investment in their targeted grantmaking geographies, generally in the Northeast, the San Francisco Bay Area, and the Pacific Northwest. The Russell Family Foundation, for example, has divested from coal and explicitly reinvested in sustainable timberland investment management organizations, but because the Foundation focuses on the Pacific Northwest, its place-based

[22] John Schwartz, "Rockefellers, Heirs to an Oil Fortune, Will Divest Charity of Fossil Fuels," *The New York Times,* 21 September 2014.

investments in real assets are being made in Portland-based Ecotrust.[23] Similarly, the Solidago Foundation focuses on local investments in western Massachusetts and New England, while the Park Foundation focuses on Tompkins County, New York. Furthermore, for many of these foundations, a fossil-free investment in Appalachia would generally need to meet the same investment criteria as any other potential investment under consideration. For many trustees, officers, and investment consultants with whom we spoke, that meant generating benchmarked, competitive, market-rate returns.

There are nevertheless several Divest-Invest foundations that are active programmatically in Appalachia, such as the Chorus Foundation, the Sierra Club Foundation, and the Jessie Smith Noyes Foundation. Some of these foundations may have a tolerance for more creative investments that generate tangible social and environmental impacts. Ultimately, the Divest-Invest Philanthropy initiative is a new and rapidly evolving group, so it is difficult to draw firm conclusions about the opportunities it may hold for Appalachian investment. However, Appalachian groups could begin inserting themselves more concertedly into the emerging conversations about the nature of fossil-free investment, through groups such as Confluence Philanthropy, Mission Investors Exchange, and the Appalachia Funders Network (AFN), in order to take advantage of the opportunities that do emerge.

During our consultations, community foundations were repeatedly cited as "natural" allies in this endeavor, particularly those that are members of the Appalachia Funders Network. Putting place-based mission investment on the agenda of AFN is therefore key, and several members with whom we spoke were eager to do so. However, community foundations, particularly those in the region, seem to have little interest in divestment from fossil fuels. This is due not only to dynamics and dilemmas associated with the decline of coal we analyzed at the outset of the paper, but also to the simple fact that community foundations invest on behalf of a diverse community of donors who rarely have convergent views on such a sensitive, politicized issue as fossil-fuel divestment. As with the faith-based investors discussed below, community foundations also tend to prioritize the social dimension of investment over environmental impacts, but highly engaged individual donors, trustees, or staff in the foundations could drive a re-orientation toward investment opportunities that support an Appalachian Transition. The Greater Cincinnati Foundation (GCF), for example, was one community foundation we interviewed that is very actively committed to mission-related impact investing, and it happens to sit on the periphery of Appalachia, with a service area and donor base that extends into Appalachian Ohio and Kentucky. Given its diverse donor base, GCF, like most community foundations, has not – and will not likely – join Divest-Invest Philanthropy. However, it is very interested in using its impact investments to deliver social, and to some extent environmental, benefits in Appalachian communities with acute needs. Any deals will ultimately need to be vetted by GCF's impact investment consultant, Imprint Capital, a $450 million investment firm based in San Francisco that has become a leading player in the impact investment space. Imprint has numerous clients involved in divestment, and it has also worked with many of

[23] See "Divest Invest in the Pacific Northwest," The Russell Family Foundation, Vimeo, 2014.

the largest foundations that have active mission or impact investing portfolios, such as the W. K. Kellogg Foundation. The investment criteria and due diligence hurdles to cross are consequently set more by the gatekeeping investment adviser than by the community foundation. Understanding the decision-making process of these kinds of gatekeepers, therefore, will be vital if attracting capital from the clients of these intermediaries becomes an objective.

From our discussions with GCF, we also learned of informative experiences of The HealthPath Foundation of Ohio (formerly the Anthem Health Foundation), a $22 million foundation housed as a supporting organization within the community foundation. Alongside GCF, HealthPath helped to seed a new Community Health Loan Fund at the Finance Fund in Columbus, Ohio. Although HealthPath's 36-county geographic area of service includes some 17 counties in the Ohio Hill Country, none of the fund's loans have gone to Appalachian Ohio to date. Healthcare needs in rural Appalachian areas (in terms of both health indicators for underserved populations and the supply of doctors and nurses) are recognized as particularly acute – and worsening due to uncertainties related to the Affordable Care Act and to epidemiological risks associated with the fracking boom. A much deeper analysis of this case could be fruitfully undertaken in order to understand opportunities and barriers related specifically to financing community-based healthcare across the region. Although the HealthPath Foundation is not pursuing divestment, it is deeply concerned with the impact of fracking and fossil fuels on the health of Appalachian communities, and it wants to foster healthy, fossil-free economic alternatives. The Community Health Loan Fund, if properly structured, could readily become a fossil-free investment vehicle that could appeal to investors that have divested from fossil fuels and are seeking opportunities to re-invest in a low-carbon future.

At a basic level, this example helps cast light on a widespread urban/rural divide among CDFIs when it comes to "capital absorption." In this case a traditionally urban focused CDFI, such as the Finance Fund, may have been under-resourced to target borrowers in the rural area of coverage that the seed funders and investors would like to target and that the region desperately needs.

Like community foundations, some private philanthropic foundations also house donor-advised funds making impact investments. We reached out to several that were active in the region or had mission alignment, including RSF Social Finance, Tides, Triskeles Foundation, and Calvert Foundation. Because of their diverse constituencies and underlying investor/donor bases with differing views of divestment, it is difficult to view any of these donor-advised fund providers homogeneously. Nevertheless, Triskeles Foundation, a small $10 million foundation based in eastern Pennsylvania providing high-touch donor-advised funds that are fully mission-invested, appears to have several donor-investors seeking fossil-free portfolios, and a very limited number of them could be interested in opportunities for place-based investment in Appalachia. Tides, although not formally involved in Divest-Invest Philanthropy as of this writing, has recently opened a fossil-free portfolio in listed equities as an investment option for its donor-advised funds. Tides also has long-standing experience investing in the region, with CDFI loan funds such as FAHE, for example, so it could become an active player even though many of its progressive donor-advisers are based on the west coast and in other hubs outside the region. By contrast, RSF Social Finance, a very active mission-related impact investor, also based in the Bay Area of California, expressed little

interest in making place-based, fossil-free investments in Appalachia, highlighting the marketing challenges the region faces when addressing even those foundations that are highly engaged in social and environmental impact investing.

As for Calvert Foundation, it has shifted its charitable giving donor-advised fund to Impact Assets, another San Francisco-based firm. The foundation is well known in the region for the loans it has historically made to numerous CDFIs as part of its general community investment note product. The foundation remains interested in targeted work in Appalachia, but it has taken no stance on divestment. Nevertheless, the thematic nature of its community investments tend to exclude extractive industries by definition, so many fossil-free portfolios designed by financial advisers for individual investors are already allocating cash and fixed-income positions to Calvert Foundation Community Investment Notes. Its most recent place-based initiative – a platform called Vested.org, which allows individual investors to invest as little as $20 at varying terms – has focused initially on urban cities, such as Denver and the Twin Cities, and on geographically dispersed thematic initiatives such as women's empowerment, affordable housing, and fair trade. The foundation's targeted investments can be client and donor-driven; however, the Foundation has apparently not yet had enough demand for investments in Appalachia to make a major push. It is telling that Vested.org provides opportunities to invest in rural, small-scale, sustainable farming, but only through international microfinance; there is no targeted domestic option through loan funds or Slow Money-type vehicles.

Appalachian Community Capital hopes to aggregate capital for deployment among numerous smaller CDFIs in the region, reducing transaction costs, spreading risk, and simplifying due diligence for outside investors. Whether Appalachian Community Capital can be seen as a "fossil free" investment vehicle for investors committed to divestment will depend on the kinds of businesses and sectors that ultimately benefit from its lending operations and on whether there is adequate alignment within the entity itself, given its diverse constituents and investor base.

Faith-based Investors

Faith-based congregations are deeply grappling with their approach to fossil fuel investments and their stances on divestment. Although in the United States approximately two dozen churches, many of them Quaker, have made congregational commitments to divest from fossil fuels, the United Church of Christ, the Unitarian Universalist Association (UUA), and the World Council of Churches are the only three to have made a decision to divest at the national or international scale.[24] The case of the UUA highlights the diversity of opinions on divestment that currently divides the faith community. In May 2013, the UUA held a panel discussion in Boston in order to explore whether its congregations should divest. Although audience members applauded loudest when speakers spoke out in favor of divestment, the two representatives from the church – one a

[24] Current list of divestment commitments at 350.org's http://gofossilfree.org/commitments/. Last accessed 9 November 2014.

minister and former investment committee member, the other the Treasurer and CFO who serves on both the investment and socially responsible investing committees – both favored engagement with fossil-fuel companies over divestment from them, mirroring the broadly held view of many members of the Interfaith Center on Corporate Responsibility (ICCR), a leading faith-based investor group that is highly engaged in shareholder advocacy. Although at the time only about three percent of the UUA's portfolio was invested in fossil fuels, both of the critics of divestment cited concerns around the financial impact that full divestment would have on the church's portfolio, which was earned nine percent annualized returns over the last decade. They also highlighted their long-time relationships with their investment managers, who incorporate environmental, social and governance (ESG) criteria into their financial decisions but do not avoid fossil-fuel companies, and whose investment savviness they trusted.[25] Nonetheless, following the debate, the UUA's General Assembly announced later in the summer its decision to divest its UUA Common Endowment Fund from fossil fuels.[26] Based on our conversations with other faith-based investors, we anticipate other denominations will be making new announcements about their approaches to divestment.

Many within the faith-based investment community share the Unitarian officers' view that engagement with companies may be more effective than divestment even though many of them screen their portfolios of "sin stocks" such as tobacco, alcohol, gambling or pornography. Members of the ICCR file nearly 200 shareholder resolutions every year on a wide range of social and environmental issues, and dialogue with companies, roundtables, and investor letters are key strategies employed by these investors as well.[27]

Despite this lack of consensus around fossil fuel divestment among faith-based investors, many religious investors have demonstrated a commitment to place-based investing in Appalachia. Individual congregations and orders such as the Adrian Dominican Sisters, Circle of Mercy Congregation, and Unitarian Universalist Congregation of Asheville have invested in CDFIs in the region, such as FAHE and Mountain BizWorks.[28] The United Methodist Church's investment arm known as Wespath Investment Management, has financed affordable housing in Kentucky and West Virginia through its Positive Social Purpose (PSP) Lending Program, using loan guarantees, low-income housing tax credits, and state and federal subsidies.[29] Wespath has also made an effort to focus more of its investments in rural communities when many CDFIs have clustered their activities in more urban areas. Wespath's due diligence process is extremely thorough because they hope their investments will forge long-term partnerships that will provide additional deal sourcing in the future. And their expectation is that the PSP Lending Program's portfolio will perform competitively to benchmarks, with market-rate returns.

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[25] "To Divest or Not to Divest: What Are the Moral and Practical Considerations of a Fossil Fuel Divestment Strategy," Panel, Unitarian Universalist Association, Boston, 13May 2013.
[26] "The Unitarian Universalist Association Joins Fossil Fuel Divestment Movement," Press Release, Unitarian Universalist Association, 28 June 2014.
[27] For more information, visit http://www.iccr.org/.
[28] "Investing Overview," Mountain BizWorks, 2014.
[29] "Positive Social Purpose (PSP) Lending Program Property Map," Wespath, Last accessed November 2014.

Nevertheless, because of their values, some faith-based investors have a wider discretion to accept concessionary rates of return in exchange for demonstrable social impact. Everence Community Investments, the community investing arm of the Mennonite Church, takes precisely such an approach. Everence uses an intermediated investment model similar to that of Calvert Foundation, which has traditionally provided due diligence to Everence on its CDFI investments. The UUA also includes a mix of at- and below-market rate investments within their community investing program, and like Everence they do have a track record of making some community investments in the region.[30] However, many larger faith-based institutional investors, particularly those managing retirement plan assets, such as the Episcopal Church Pension Group, Friends Fiduciary, or Wespath, have a strong sense of fulfilling fiduciary duty through the pursuit of market-rate, risk-adjusted returns across their socially responsible investments, including their community investments. Understanding these investors' needs will require careful attention to the particular expectations of each.

Finally, when it comes to place-based investment, we found that the focus of faith-based investors tends to be much more on social than environmental impact. Even when grappling with divestment, religious investors tend to view their place-based investments through a social lens. The UUA, for example, has stated that it prefers to make high-risk, high-impact investments in affordable housing and microenterprise, very much apart from its recent divestment commitment.[31] However, green issues frequently provide an added bonus, especially as investment officers seek to respond to demands from plan participants and local congregations for divestment and reinvestment in climate solutions. Wespath actively seeks positive investments in the areas of housing, healthcare and community development in its PSP Lending Program. Although some of its newer projects also include environmental components, such as energy efficiency, the "social" criteria related to affordability and demographics remain of paramount importance. Similarly, for Everence Community Investments, green business lending is merely one of several socially themed investments, including neighborhood revitalization, affordable housing, church lending, and microenterprise.[32]

Part of the hesitation around full fossil fuel divestment for some faith-based investors is rooted in concern for the people living in coal communities. One interviewee, for example, was concerned about the effect that divestment from coal would have on mining communities and noted that their ministries in places like West Virginia were actively following debates about fracking, which seemed to be the main "alternative" form of redevelopment with any real traction. Until more sustainable alternatives for reinvestment are in place, this faith-based investor would not likely allocate capital into the area. The solution, from this investor's view, was for their denomination's missionary outreach programs to address social and environmental concerns through

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[30] "Community Investing Toolkit for the Faith Community," Social Investment Forum (now US SIF: The Forum for Sustainable and Responsible Investment), 2009, p. 17.
[31] Ibid.
[32] "Community Development Investments," Everence, 2014.

philanthropic work, not through investment, for the time being. This example highlights that the traditional "firewall" between philanthropy and finance is by no means confined to large philanthropic foundations.

Investment Consultants to Institutional Investors

Because institutional investment consultants work on behalf of clients, most of them do not take an official stance on fossil-fuel divestment. However, one such firm we interviewed, Veris Wealth Partners, has published a paper on the benefits of divestment in mitigating risks and addressing climate change, even though not all of its clients have embraced divestment.[33] Others such as Mercer have traditionally focused more on carbon risk management and climate-related investment opportunities, without taking sides on the divestment debate. A consultant at Cambridge Associates, LLC, the leading investment consultant to college endowments, reported that inquiries from clients about fossil-fuel divestment had exceeded requests related to all other ESG issues. Even consultants who have reported little or no requests for divestment or place-based investment have indicated that their clients would likely be interested if a compelling story of impact could be told, such as a narrative of a transition away from coal, or helping to improve poverty-stricken communities, or an intersection of these two environmental and social themes.

With some notable exceptions, most of the more boutique consultants specializing in social and environmental investment have the flexibility to do private, more esoteric deals in community investments. Some of this is simplified through online platforms: Veris Wealth Partners, for example, relies on Envestnet PMC's Impact Investing Solutions platform for streamlined investment product selection and due diligence. Although Veris is willing to conduct independent due diligence for investments not found on the platform, having products or funds available on it greatly facilitates their ability to allocate client assets to them.[34]

Additionally, many consultants have the capacity to conduct due diligence for investments with below market rate returns, depending on the client and where a given investment might fit within a broader asset allocation. Although the high transaction costs behind illiquid private placements can present challenges, the opportunity for highly differentiated impact can make it worth their while, particularly if multiple clients might benefit from the vetting of any project or deal. Client demand remains an important driver, and many consultants believe that much better marketing, broadly construed, could be done by CDFIs and other potential recipients of investment in the region. We repeatedly heard sentiments along the following lines: "Make the impact story compelling and make the products easily investable."

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[33] Lily Scott and Anders Ferguson, "Emerging Research on Climate Change Risk and Fossil-Fuel Divestment," Veris Wealth Partners, April 2013, available at http://www.middlebury.edu/media/view/451518/original/veris_divestment.pdf.

[34] For related materials on Envestnet PMC's Impact Investing Solutions, see http://www.investpmc.com/solutions/portfolios/overlays.

INDIVIDUAL INVESTORS AND THEIR ADVISERS

Financial Planners and Advisers

Many of the requirements, comments, and recommendations laid out by the investment consultants were echoed by the financial advisors and planners even though their client base tends to be more individual than institutional. The advisors with whom we spoke are willing to look for new investment opportunities, so long as it is fueled by client demand. The dilemma for advisors with an interest in the region is that requests from their clients for investment in Appalachia are extremely limited, even for advisors living in or close to the region. However, this may be due in part to the lack of easily investable products, particularly for clients who are not higher-net-worth, accredited investors. Nearly all of the advisors we spoke with invested client assets in Calvert Foundation Community Investment Notes because of their ease of use, ready availability on platforms, low minimum investment requirements and diversification. They simply lack similar product options, but many reported that they would be willing to invest in more local opportunities if they were available.

However, some advisors do dig a little deeper. Several we spoke with have made use of mainstream online brokerage firms as a way to increase their options. One advisor who works for individual clients said that she recently added Shareholder Services Group, a custodian platform through Pershing. This allows her to work more directly for her clients—she prepares the paperwork, has them sign it, and then sends it in on their behalf. Additionally, Natural Investments, LLC, a national registered investment adviser with a presence in Louisville, Ky., is a strong advocate of investing 2-3 percent of clients' portfolios into community investments as part of its approach to asset allocation, even while acknowledging that these may result in below-market returns from time to time.[35]

The financial advisers did report some client interest in portfolios divested from fossil fuels. Natural Investments has a Fossil Fuel Free Portfolio, which excludes "fossil fuel extraction and exploration companies" and is moderately aggressive, including fixed-income community investment allocations to Community Capital Management.[36] Other advisors, including those at Portfolio Resources Group, have created fossil-free portfolios for individual clients who have requested them. However, some individual investors view their investments as a way to engage with companies, and therefore prefer to hold on to some fossil fuel stock. Some clients who consider themselves environmentalists focus on investments in clean technology—while they may not have actively divested from fossil fuels, their exposure to conventional energy may be virtually non-existent.

Finally, even for those planners who label themselves as "SRI" or "impact investors," these deals still need to meet certain criteria. According to one adviser, community investments should

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[35] "Community Investing," Natural Investments.
[36] "Portfolios," Natural Investments.

generate market rate returns of between 5 and 8 percent although they need not be risk-adjusted returns if they meet clients' needs. At the same time, some clients may choose to invest small, defined amounts which are focused primarily on social returns and not focus on the financial returns. However, one-off investments place financial advisers that rely on their platforms for transactional income in a difficult situation because they receive no compensation for "selling away" from their platforms. Independent, fee-only advisers have more discretion in this respect, but even they will confront challenges related to tracking and reporting their clients' direct investments, which may also not meet the criteria of custodians.

Divest-Invest

The Divest-Invest initiative has expanded from a group of foundations to include a platform aimed at individual investors interested in re-allocating their assets from oil, gas, and coal companies into climate solutions and clean energy alternatives. This September, on the eve of the UN Climate Summit, more than 650 individuals with more than $2.5 billion in combined assets had taken the initiative's online pledge.[37] A narrow majority of these individuals who reported asset ranges to the initiative have less than $500,000 in assets, so most individuals appear to be non-accredited investors. One third has more than $1 million in assets pledged to divest and reinvest. Divest-Invest cites both the moral imperative of aligning one's investments with one's values, as well as concerns over the carbon bubble and "stranded assets," as reasons for signing the pledge.

Slow Money

An additional theme that arose in some of our conversations centered on Slow Money, which is a network of food entrepreneurs and investors interested in changing the way money is currently invested, starting with food systems and agriculture. It is unlikely that Slow Money will become registered with the SEC and therefore financial advisers and consultants cannot officially recommend it to clients. However, there is significant client interest in this broader issue, which happens to be a promising opportunity for Appalachia in its transition away from coal. As it happens, the national gathering of Slow Money recently occurred in Louisville this year, and provided an opportunity for those interested in funding food and farming initiatives to attend and learn more about the region's investments.[38] While not explicitly part of the divestment movement, this network provides opportunities for fossil-free investments in a place-based way. One of the movement's slogans is to invest in soil rather than oil.

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[37] For more information, visit http://divestinvest.org/individual/. "Measuring the Global Fossil Fuel Divestment Movement," Arabella Advisors, September 2014.

[38] Slow Money Louisville took place November 10-12, 2014, in Louisville, KY. Croatan Institute was a marketing partner for the event.

KEY FINDINGS

This section will begin with a review of the key themes that arose from our interviews and research. It will then move into broader recommendations, which we heard from investors across our categories, and which we believe are potential ways to attract fossil-free and place-based investment from the divest-invest space and beyond.

Reinvestment of divested fossil fuel assets into fossil-free alternatives will always be a smaller portion of the total divestment universe, and place-based investing will be an even smaller component of fossil-free reinvestment.

This is partly due to the scope of the foundations involved in the Divest-Invest space—these actors prefer to focus their place-based investing in their own backyards. However, as more foundations have recently joined the Divest-Invest initiative, it would be worth reviewing the signatories to determine whether there is additional overlap between their areas of work and Appalachia.

However, the small size of this space is also due in part to a lack of awareness of the available opportunities in the region. Even for those actors involved in reinvestment, many have focused on publicly traded companies, or angel investments in fossil-free private equity, without considering making allocations in community investing. One foundation committed to divestment and reinvestment and very actively making grants in the region confessed that many of its environmentally-oriented private investments – nearly all of which focused on clean technology and renewable energy in northern California – had been made because a particular fund manager had buttonholed a key trustee in the corridor of a conference he was attending.

A lack of client demand was one of the most commonly reported reasons preventing money managers and advisors from investing in an Appalachian Transition; however, a lack of awareness and connection to the issues facing the region are principal barriers. Thus, increasing visibility is vital to increasing investment in the region. One way to do this could be an intentional marketing campaign geared towards investors, money managers, and consultants, with a focus on telling a compelling narrative and standardizing reporting materials and metrics. Such a marketing campaign should also include an intensive face-to-face outreach strategy. Because of the intersectional nature of investment opportunities in a Just Transition, many conferences and meetings would be appropriate for marketing investment opportunities, such as Confluence Philanthropy, Mission Investors Exchange, Environmental Grantmakers Association, the Global Impact Investing Network (GIIN), the Interfaith Coalition for Corporate Responsibility (ICCR), the SRI Conference, SOCAP, the Impact Capitalism Summit and the Five Fund Forum, the UN Principles for Responsible Investment, and US SIF: The Forum for Sustainable and Responsible Investment. Exposure could take place formally, through participating in panels at these kinds of conferences, or more informally, simply by networking with other attendees. If possible, local investment funds could sponsor these kinds of events and convenings in order to get more air time. Road shows, where an issuer pitches potential investors are common practice for marketing private offerings,

and could be very effective in this context as well. Partnering with small investment banks and capital-raising advisers, such as Watershed Capital, could also be a useful strategy.

There are investors interested in Appalachia who are not currently part of the divestment movement, but whose investment criteria make them very similar and therefore potential targets for the same type of outreach.

Some, including segments of the faith-based investors, are already involved in the region, and are deciding whether to make the leap to full divestment. Others, such as local community foundations expressed to us an interest in furthering their investment into Appalachia, but have for various reasons decided not to take a stance on fossil-fuel divestment. Both of these segments would provide easy opportunities for further collaboration around fossil-free investments that would result in regional social impact, potentially at below-market rates of return.

There is also a broader category of SRI investors who are not explicitly part of the divestment movement, but who are interested, or have clients who are interested in, fossil-free portfolios. These actors may not want to take an official stance on divestment, or may maintain a primarily low carbon portfolio, but prefer to hold a small amount of fossil fuel companies for engagement purposes. Community investing tends to appeal to this category naturally, given the nature of the investments. Broadening the circle to include these types of investors would not require additional work beyond reaching out to the appropriate groups, and could provide a potential win-win for those seeking to further their investment options and regional actors seeking additional funders.

Many investors, including Divest-Invest signatories and impact investors, are seeking market-rate returns.

Of the foundations we spoke with who have signed onto the Divest-Invest pledge, the vast majority are focused on "doing well by doing good," and believe that achieving competitive returns is part of their fiduciary duty. It is important to remember that investment criteria are often set by investment consultants rather than the foundations themselves. These actors are used to impact investments which generate environmental or social benefits as well as competitive financial returns.

However, because these financial needs are similar to many in the SRI community, responding with the appropriate investment products has the benefit of opening up the region to broader demand. Some ways to do so are discussed in greater detail below.

Some actors are willing to take concessionary returns, provided there is a compelling narrative and the products are accessible and easy to invest in.

For some, demonstrating the human impact that their investments have in communities formerly dependent on the coal industry is more important than achieving a market rate return. For others, affecting positive environmental change in areas degraded by mining may make up for a

concessionary return. As we noted earlier, the WealthWorks community of practice already includes a number of projects that reflect this type of positive story. However, developing compelling narratives to articulate the inextricable intersections between climate risk and social impact, particularly in Appalachia, is an essential piece to attract those investors who might accept concessionary rates of return.

The connection between a concern about climate change and a concern for the distressed areas of Appalachia is not necessarily straightforward or recognized by investors. Work therefore needs to be done to connect the dots for potential investors, which may be achieved through traditional media, social media, and investor-focused publications and communication channels. Unfortunately, the traditional media often tells the wrong story. For example, a *New York Times Magazine* article from June 2014 entitled "What's the Matter with Eastern Kentucky" suggests continuing to decrease investment in the area: "... it would be better to help the people than the place — in some cases, helping people leave the place."[39] This narrative needs to be refuted and replaced with a more positive, people-centric narrative, grounded in the theory of a Just Transition.

In addition to telling the narrative in a compelling way, work should be done to craft a story for each investment opportunity, as well as one tailored to each potential investor. Such stories should make the connection between climate change and investment in a Just Transition. Additionally, tailoring the narrative to the investor's specific focus is very important. One consultant told us that that depending on the focus of the narrative, he points different clients towards a particular investment opportunity. Therefore, this consultant expects each narrative to include very specific impacts – often with a sharp delineation between social and environmental impact. Constructing a narrative simply to fit an investor's interests may seem frustrating. However, it is important to note that many investors were skeptical when we told them that value chain investment opportunities seek to generate positive social and environmental impact. Work must be done to change this investors' misperceptions.

Along with a compelling narrative, it is also important to make products that are easily accessible to investors outside of the region. This can be done through bundling notes, moving onto online platforms, and making listing criteria comprehensive and easily accessible.

[39] Annie Lowrey, "What's the Matter with Eastern Kentucky?" *The New York Times Magazine*, June 29, 2014. http://www.nytimes.com/2014/06/29/magazine/whats-the-matter-with-eastern-kentucky.html

RECOMMENDATIONS

Based on our interviews and research, this section begins to articulate an action plan for increasing fossil-free investments in a place-based Just Transition in Appalachia, by making recommendations across the themes we have identified throughout the paper. These include growing the divestment movement, and the reinvestment component of the movement; making place-based investments more visible and accessible; developing new products with market-rate returns; and increasing and better articulating the impact of available investments. Although there are many possible steps that could be taken, these are meant to provide high level recommendations and areas through which actors in the region can move forward.

1. *Engage in follow-up and continue deeper research to identify potential divestment-reinvestment investors with particular interest in Appalachia*.

This includes continuing dialogue with investors with whom we spoke, initiating conversations with new institutions committing to the Divest-Invest initiative, and researching other investor types' interest in reinvestment, including other faith-based investors, public pensions, labor unions, environmental organizations, local community foundations, and college endowments.

2. *Catalog and clarify current or potential investable opportunities and the demand for capital in the region that could attract potential interest from both the divestment/reinvestment movement and the SRI space.*

Outside investors with whom we spoke repeatedly wanted to know what is currently available and why opportunities to invest in existing CDFIs had not been brought to them. These opportunities could come from other low carbon sectors, such as healthcare, light manufacturing, clean energy, sustainable food, farming and forestry, and other forms of alternative development.

3. *Explore strategies to make investment in the region easier, by addressing obstacles related to platforms, scale, and the development of investor-friendly materials and impact metrics*:

Platforms

Because investing directly in CDFI notes requires a lot of work on behalf of the investor, making them available through online platforms would make the process much easier and increase the likelihood of investment. Some advisors have chosen to use a mainstream online brokerage firm, such as Charles Schwab, Fidelity or TD Ameritrade. Other larger wirehouse brokers have created their own platforms focused on the impact investing space in order to attract clients interested in divestment and environmental and social investment. Morgan Stanley has recently created an

"Investing for Impact Platform," for example.[40] Along with these prominent platforms, there are also more niche options available online, which would be worth researching further. One investment advisor mentioned FTJ Fund Choice, a platform for smaller accounts. Institutional investment consultants, such as First Affirmative Financial Network, can create model portfolios on the site, which other investors may then use. Advisors can choose to "outsource the asset allocation and manager selection decision" to these firms. Although specific portfolio information is not publicly available on their website, the advisor mentioned that she currently has two fossil-free funds through FTJ FundChoice. Mission Markets is another online platform geared towards impact investors.[41] Should they chose to expand into Appalachia, a final possibility would be developing a place-based note for Calvert Foundation's Vested.org. It would not be explicitly mandated or marketed as fossil free, but it could nevertheless take a place within the broader reinvestment ecosystem we are striving to foster.

Scale

Another way to increase the accessibility of products would be to develop sufficient scale. The transaction costs for working with a number of individual CDFIs are high, given the due diligence process which investors are required to go through. Achieving economies of scale could be achieved in several ways. First, several investors encouraged bundling notes. Bundling notes would also make registering for a CUSIP number—a code which identifies securities and is used in financial trading—more achievable. Being more readily available on a CUSIP basis would make it much easier for investment managers and advisers. However, the fees associated with registration can make this very difficult to do as an individual CDFI.

Another means of achieving scale is through securitization; one of the faith-based investors normally pools its transactions, so that if one of its loans defaults, there are others to make up the difference. Finally, one intermediary suggested co-mingled vehicles. An ERISA-compliant Collective Investment Trust could potentially pool investor capital in order to purchase a portfolio of notes from a diversified group of Appalachian CDFIs, and make the product available to defined-contribution retirement plans.

Materials and Metrics

It is also important for CDFIs to be aware of listing criteria, and to provide as much upfront information as possible in order to reduce the burden on the investor. For example, the transaction costs for a particular small consulting group when vetting a new CDFI are very high, since this firm conducts its own due diligence; as a result, they have only approved 10-12 CDFI loan funds (while banks and credit unions are automatically approved given federal insurance). However, an associated consultant said that they are willing to invest the time if they think it is a good fit, and if there is a compelling story which they believe their clients will be interested in.

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[40] http://www.morganstanley.com/globalcitizen/pdf/investing-with-impact.pdf

[41] "Frequently Asked Questions," Mission Markets, 2014. http://www.missionmarkets.com/#!faq/c1r2k

One way to do this is to create a standard due diligence questionnaire (DDQ), including ensuring that the CDFI intermediaries they work with have an aligned mission, reviewing staff performance, reviewing three years' of financial statements, and conducting onsite visits. As an example, Mission Markets lists their requirements on their website. Additional materials which make investments more accessible are Private Placement Memoranda (PPMs) for limited partnerships, leadership information, and impact metrics.

Additionally, though at times difficult to measure, impact metrics are important for many "mission"-driven investors. The clients of many of the investors we interviewed want to know that their money is making a difference, so providing data on outputs and outcomes makes this quantifiable and easier to take back to the client. Typical metrics include jobs created, tons of carbon conserved, and affordable housing units developed, among others. Obviously, the metrics are investment-specific, but should be standardized as much as possible and made easily assessable. However, although there are a number of specific rating systems available, one consultant felt that there was no preferred metric to use, as long as impact can be shown. "Clients don't care about comparing impact cases," he stated. "They care about the stories."

4. *Assess interest from regional CDFIs, including the Appalachian Community Capital initiative, in exploring joint note products or other efforts to pursue SRI and Divest-Invest capital.*

This could include increased bundling, as described above, as well as developing a new online platform designed specifically for investing in Appalachia.

5. *Explore and develop a more comprehensive marketing and communications strategy to tell the story of Appalachian transition as it is related to climate change, highlighting the community and environmental benefits as well as financial returns*.

As described above, this strategy could inform interactions at investor conferences as well.

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