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“OCEANS AND SEAS”

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Global Market Strategy

Regional and Sector Strategy: Monthly Update

Michael Geraghty ... p. 14

Corporate Governance

Department of Labor:

ESG Compatible with Fiduciary Duty

John K.S. Wilson ... p. 17

Accelerating Impact

Conserving Ocean Capital for Perpetual Returns

Brad Ack, World Wildlife Fund ... p. 19

The Promise of Blue Finance

Torsten Thiele, Global Ocean Trust ... p. 21

Offset Your Life the Blue Way

Mark Spalding, Ocean Foundation ... p. 23

Enhanced Analytics

Can Financial Innovation Make Oceans a Global Climate Solution?

Maria Damanaki, The Nature Conservancy ... p. 25

Giving with Your Heart and Your Head: Using Metrics in Philanthropy

Mark Spalding, Ocean Foundation ... p. 27

Open Source Excellence

Old Man, Nutrition, and the Sea

Linda Cornish, Seafood Nutrition Partnership... p. 30

Mega Yachts: Incubators and Economic Engines for Innovation

Victoria Cerrone, JD, Ports of Cause ... p. 32

Sustainable Editorial

A Call to Responsibility: Salvage Our Most Valuable Natural Capital Asset

Karen Sack, Ocean Unite ... p. 34

The Oceans and Us

Kimberly Gladman, PhD, CFA, JUST Capital ... p. 37

CEO's Letter on Sustainable Finance & Banking



Erika Karp
Founder & Chief Executive Officer
Cornerstone Capital Inc.

This month in the *Cornerstone Journal of Sustainable Finance & Banking (JSFB)*, as the world attends to the atrocious terror attacks in Paris and Beirut, and considers the complexities of waging war with the Islamic State, we turn our eyes to the **Oceans and Seas**. In the coming years we will see the contours of the geopolitical response to terrorism, the refugee crisis, the potential for a climate deal in Paris, the divergences in growth, asset prices, and central bank monetary policy. But we look to the seas in the hopes of finding something that is predictable and durable ... something that might lend insight and purpose to the capital markets.

Indeed, looking out at the North Sea from his home in 18th century Scotland, economist Adam Smith might easily have pondered the potential of this economic frontier as he penned his seminal book, *The Wealth of Nations*. Three centuries later it's not too late to reflect upon, and respect, the unimaginable wealth represented by the seas.

Smith understood human nature, the drive for economic well-being, the good sense of playing to our strengths, and the human urge to trade. But could he have forecast the extent of today's industrialization of the seas? And what might he do to avoid "the tragedy of the horizons" colliding with "the tragedy of the commons"? In other words, exploitation for the near term without long-term stewardship of that which is most precious.

In this month's JSFB we consider that very issue—how to balance our economic reliance on the oceans with the pressing need to halt the degradation of marine life and preserve the tremendous value that yet remains. As Kimberly Gladman of **JUST Capital Foundation** writes in her elegantly articulated "Sustainable Editorial," the ocean represents an "immensely rich frontier for the further expansion of human knowledge and imagination."

Today an estimated 61% of the world's population lives within 10km of an ocean. A similar proportion of global GDP comes from coastal areas within 100km of the seashore. And, as explained by Brad Ack of the **World Wildlife Fund** in his "Accelerating Impact" article, his team calculated the economic value of the oceans, arriving at a valuation of \$24 trillion USD—essentially the seventh-largest world "economy."

There is ample evidence of decline. As Karen Sack of **Ocean Unite** highlights in her "Sustainable Editorial," 90% of fish stocks are either fully fished or overfished, and ocean acidity has soared over the past century. Coral reefs could die out by 2050. And, as **The Nature Conservancy's** Maria Damanaki points out, "You cannot have a conversation about climate change without talking about sea level rise, increasingly severe coastal storms, damaged natural systems and other impacts to our oceans and coastal communities."

However, there are also many organizations creating and supporting ingenious programs to combat the decline. Torsten Thiele of **Global Ocean Trust** and Mark Spalding of **The Ocean Foundation (TOF)** both discuss Blue Carbon initiatives in their “Accelerating Impact” articles. In a second contribution to this issue, Mark also explains the concrete role metrics play in ensuring the philanthropic support TOF receives is targeted most effectively. Linda Cornish of the **Seafood Nutrition Partnership** highlights her organizations efforts to promote consumption of seafood – which in turn promotes efforts to spread sustainable stewardship of fish and other seafood supplies. And even the yachting industry plays a significant positive role, with **Ports of Cause** working to promote sustainable design innovations and LEED-inspired certification for yachting manufacturers, not to mention inspiring their wealthy clientele to support efforts to preserve the marine environment they clearly value.

Clearly, much of today’s “wealth of nations” is derived from the oceans and seas. To preserve this asset for future generations, we should draw upon the best thinkers, practices, and policies in economics, business, finance and civil society to mobilize the mainstream of society in the blue economy. 🌊

My sincere regards,
Erika

Erika Karp
Founder and Chief Executive Officer

Table of Contents

CEO's Letter on Sustainable Finance & Banking		2
Market Summary		
Overview		5
Market & Global Sector Performance, Monetary Policy & ESG Data		7
Global Market Strategy		
Regional and Sector Strategy: Monthly Update	Michael Geraghty, Global Markets Strategist <i>Cornerstone Capital Group</i>	14
Department of Labor: ESG Compatible with Fiduciary Duty	John K.S. Wilson, Head of Corporate Governance, Engagement and Research, <i>Cornerstone Capital Group</i>	17
Accelerating Impact		
Conserving Ocean Capital for Perpetual Returns	Brad Ack, Senior Vice President of Oceans, <i>World Wildlife Fund</i>	19
The Promise of Blue Finance	Torsten Thiele, Founder, <i>Global Ocean Trust</i>	21
Offset Your Life the Blue Way	Mark Spalding, President, <i>The Ocean Foundation</i>	23
Enhanced Analytics		
Can Financial Innovation Make Oceans a Global Climate Solution?	Maria Damanaki, Global Managing Director for Oceans, <i>The Nature Conservancy</i>	25
Giving with Your Heart and Your Head: Using Metrics in Philanthropy	Mark Spalding, President, <i>The Ocean Foundation</i>	27
Open Source Excellence		
Old Man, Nutrition, and the Sea	Linda Cornish, Executive Director, <i>Seafood Nutrition Partnership</i>	30
Mega Yachts: Incubators and Economic Engines for Innovation	Victoria Cerrone, JD, Co-founder & Director of Luxury Brand Partnerships, <i>Ports of Cause</i>	32
Sustainable Editorial		
Call to Responsibility: Salvage Our Most Valuable Natural Capital Asset	Karen Sack, Managing Director, <i>Ocean Unite</i>	34
The Oceans and Us	Kimberly Gladman, PhD, CFA, Managing Director for Research, <i>The JUST Capital Foundation</i>	37
Upcoming Events: Global ESG Calendar		39
JSFB Subscription Form		40
Recent Articles		42
Cornerstone Capital Team		43
Important Disclosures		44



Enhanced Analytics

Can Financial Innovation Make Oceans a Global Climate Solution?

By Maria Damanaki, Global Managing Director for Oceans, The Nature Conservancy



Aerial view of the Nahtik Marine Protected Area adjacent to the Enipein Mangrove Forest Reserve, Pohnpei, Micronesia.
©Nick Hall / The Nature Conservancy

With the United Nations Climate Change Conference (COP21) in Paris right around the corner, we are at an important crossroads for the global health and sustainability of our oceans.

You cannot have a conversation about climate change without talking about sea level rise, increasingly severe coastal storms, damaged natural systems and other impacts to our oceans and coastal communities.

What excites me, however, is that the size of this global challenge presents us with an enormous opportunity to create positive change for oceans and people. And this opportunity has an important through-line: transforming our relationship with nature.

Nature-Based Solutions

One area of climate action that is beginning to garner the attention it deserves is nature-based climate solutions. They are cost-effective, flexible, and offer significant co-benefits to the health and security of communities and to biodiversity.

The financial sector will play a crucial role in moving us more quickly to implementation of these solutions.

But the longer we wait to act on climate change, the more severe the impacts and the costs.

The price tag, specifically, covers both sides of the climate change coin — the potential market impacts of mitigating carbon pollution as well as the costs of protecting against and responding to climate-related disasters.

In a speech delivered at Lloyds of London recently, Bank of England Governor Mark Carney issued stark warnings about the potential economic destabilization of both sides of the issue: first discussing the potential crippling costs of future disasters, then touching on the risk to markets of the ballooning cost of carbon-intensive energy assets if companies don't begin accurately reflecting their carbon impact.

At nearly the same time, SwissRe's Chief Executive Officer Michel Lies called on global leaders to reach agreement at COP21 in December. SwissRe's data shows that natural disasters have cost on average \$180 billion in damage per year over the last decade. Seventy percent of that cost was uninsured. And these costs can affect country credit ratings.

These concerns reinforce the opportunity presented by natural climate solutions – and marine ecosystems specifically – to both mitigate and protect us against climate change.

In just the last year, there are emerging examples of innovation and progress.

A Climate Insurance Premium for Nature

Through our Mapping Ocean Wealth initiative, The Nature Conservancy and cross-sector partners are taking a comprehensive, location-based accounting of the full value to people of the ocean's natural systems.

And we are focusing on new ways to invest in the protective services of that natural infrastructure – such as coral and oyster reefs, mangroves, and salt marshes – to increase the climate and disaster resilience of vulnerable coastal communities around the world.

One key way we are approaching this work is through collaboration with SwissRe and other reinsurers to bring nature's risk reduction benefits into their risk modeling. We are finding potential for natural infrastructure to reduce premium costs as well as the price tag of disaster response.

Together we're also asking the question: can we bring to market insurance vehicles to conserve the natural systems themselves for their climate protective value? If so, this could be a significant financing breakthrough for natural infrastructure solutions. I believe this will become a reality.

Innovative Debt Finance for Country Action

Another exciting development this year is a first-of-its-kind debt-for-nature swap that the Government of Seychelles announced with the Conservancy's impact investing unit NatureVest and the country's creditors – the Paris Club.

The deal will allow the country to redirect \$30 million of its debt to invest in a comprehensive approach to ocean conservation and bolster its resilience to climate change.

This is the first conservation debt swap completed with the support of impact capital – serving as a new

financing model with potential replicability for other nations that are on the front lines of climate change.

Maximizing Natural Carbon Storage


And as we look to nature to aid in reducing risk and increasing resilience, we are also finding significant cost-saving mechanisms in nature that reduce carbon pollution and mitigate climate change.

The Conservancy estimates that conserving and better managing the world's tropical forests and other natural systems, including wetlands and grasslands, has the carbon storage potential of roughly 25 percent of total global carbon emissions per year.

While estimates for carbon capture and storage (CCS) at coal plants and other stationary sources typically run north of \$100 per ton, the cost of improving land use is often less than \$20 per ton.

And protecting, restoring and sustainably managing these natural places has significant co-benefits for local economies, communities and biodiversity that engineered CCS could never boast.

TNC has been working on preserving the carbon in tropical forests for over a decade. More recently, we are applying that knowledge and experience to explore the "blue carbon" potential of wetlands and mangroves in an effort to maximize the carbon storage power of all natural systems.

At COP21, and beyond, nature deserves to be at the table as a key cost-effective strategy for climate action as well as ocean sustainability. The financial sector has a crucial role to play in helping ensure these nature-based solutions reach the scale of their global potential. 

Maria Damanaki is Global Managing Director for Oceans at [The Nature Conservancy](#). She leads a global team focused on transforming how the world manages its oceans, including sustainable fisheries management, large-scale protection and restoration of coral reefs and other ecosystems, coastal resilience, and a first-of-its-kind mapping and quantification of the full value of the world's oceans to people.

Sustainable Editorial

The Ocean and Us

By Kimberly Gladman, PhD, CFA, Managing Director for Research, the JUST Capital Foundation



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In his poem “The Great Ocean,” published in 1950, Chilean poet Pablo Neruda wrote of the “gifts and destructions” of the sea. If just one of these were to be given “into my hand,” he went on, he would choose “not the final breaker, heavy with brine, that thunders onshore,” but “the inner spaces of force/the naked power of the waters/the immovable solitude, brimming with lives.” More than half a century later, his words can inspire us to consider both the aspects of Earth’s oceans that are most apparent to us land-dwellers, and those which, although perhaps equally powerful, are more hidden from our view.

The environmental importance of the oceans is unparalleled. Many of us are acutely aware of the role of the ocean in shaping our atmosphere and weather, and alarmed about the ways that role is changing due to human-produced greenhouse gas emissions. We are aware of ocean acidification resulting from increased carbon dioxide absorption, as well as the pollution of the seas from our use of agricultural chemicals and plastics. The scope of

these problems can seem overwhelming. But there are also inspiring efforts to preserve the marine environment, such as oceanographer Sylvia Earle’s [Mission Blue](#),¹ which aims to create a global network of “Hope Spots,” or protected areas covering 20% of the world’s oceans by 2020.

The ocean is a major economic force. Two-thirds of global GDP is produced in the ocean coastal zone, and in the US, coastal states account for over for 80% of GDP². The risks of climate-change induced sea level rise and increased storm incidence thus have clear economic and financial implications, which many investors, corporations, and policy makers are beginning to address.

The ocean is a workplace. Industries directly linked to the ocean itself, including tourism, fishing, and extractives, provided more than 2.7 million US jobs in 2010, and millions more around the world.³ Offshore workers, including fishermen and oil rig operators, may be exposed to serious safety risks

¹ <http://mission-blue.org/>

² For global GDP figure, see the Center for a Blue Economy at <http://www.mjis.edu/giving/initiatives/center-blue-economy>. For US figures, see the 2014 report from the National Ocean Economics Program at <http://www.oceaneconomics.org/download/>.

³ See <http://www.oceaneconomics.org/download/>


beyond the regular oversight of regulators. The isolation of offshore work can also facilitate severe human rights violations, as recent reporting about forced labor in the Thai shrimp industry has shown. Increasingly, investors and corporations are exploring the ocean-based aspects of global supply chains, and seeking to protect the health, safety, and freedom of workers within them.

Oceans are political and military battlefields. Throughout human history, civilizations have fought for control of key sea routes, ports, and fishing grounds; in our own time, control of offshore oil and gas resources has been an added source of conflict. China's island-building in the disputed Spratly Islands of the South China Sea is just one dramatic recent example of power maneuvers at sea, and political considerations are likely to continue to complicate global efforts to address the environmental and economic challenges mentioned above.

Oceans hold history and knowledge of ourselves and the world. Scientists tell us that life on earth began in the sea, and our own bodies carry the evolutionary evidence of our aquatic origins. Discovery of the ecosystems surrounding deep-sea vents has demonstrated that complex food chains can exist that are not based on photosynthesis, expanding our conception of the conditions necessary for life

both on earth and elsewhere in the universe. And the oceans are home to the cetaceans that science increasingly suggests are most similar to us, in their sophisticated use of language and their highly developed social organizations. Yet less than 5% of the ocean has been explored⁴; it therefore represents an immensely rich frontier for the further expansion of human knowledge and imagination.

In sum, when viewed from these many perspectives, the ocean is indeed, as Neruda wrote, "brimming with lives," both human and not; and a space full of force and power.

Consider it may even induce the sensation of limitless connection that Sigmund Freud famously described as "the oceanic feeling" central to religious experience. For Freud, of course, that feeling, like all religion, was an illusion. But today, the oceanic links among ecology and economics, society and science, may be intensely real. 

Kimberly Gladman, PhD, CFA, is Managing Director for Research at the JUST Capital Foundation. She serves on the UN-PRI Academic Network Steering Committee, the Research Advisory Committee of US-SIF, and the Global Advisory Council of Cornerstone Capital.

⁴ <http://oceanservice.noaa.gov/facts/exploration.html>

Upcoming Events

Global ESG Calendar

Date/Time	Event	Location	Information
11.16.15 – 11.18.15	Sustainable Brands '15 London	Beaumont Estate Old Windsor, Berkshire, UK	www.SB15London.com
11.16.15 – 11.18.15	Global Investor Relations Forum 2015 <i>Cornerstone Speaking Event</i>	Wells Fargo New York, NY	http://www.niri.org/Main-Menu-Category/learn/seminars/global/GlobalIRForum2015.aspx
11.19.15	UN Women's Entrepreneurship Day <i>Cornerstone Speaking Event</i>	United Nations New York, NY	http://womenseday.org/
11.19.15	ESG 2.0: Investment mandates and long-term value creation in the investment chain	Grange St. Paul's Hotel London, UK	https://www.eiseverywhere.com/ehome/esg2.02015/events/ESG2.0/2015/
11.19.15	2015 NCIF Development Banking Conference – The Impact We Make	JW Marriott Hotel Chicago, IL	http://ncif.org/connect/annual-conference#.VkyHnnarSU
11.19.15 – 11.20.15	TBLI Conference – Europe 2015	GDI Zurich, Switzerland	http://www.tbli.org/tbliconference/europe2015.html
11.23.15	New York Hedge Fund Roundtable <i>Cornerstone Speaking Event</i>	NYS Society of CPAs New York, NY	https://nyhfr.org/events/events.pl?EVENT_ID=205
11.23.15 – 11.24.15	World Forum on Natural Capital – 2015	Edinburgh International Conference Center (EICC) Edinburgh, UK	http://naturalcapitalforum.com/
12.3.15	High Net Worth & Family Wealth Conference <i>Cornerstone Speaking Event</i>	Hub at Cira Center Philadelphia, PA	http://cornerstonecapinc.com/event/high-net-worth-and-family-wealth-conference/
12.8.15 – 12.9.15	Responsible Investor – RI Americas 2015 Conference	Bloomberg HQ New York, NY	https://www.responsible-investor.com/events
12.11.15 – 12.13.15	Green Festivals 2015 – Portland	Convention Center Portland, OR	http://www.greenfestivals.org
1.20.16 – 1.23.16	The Annual EcoFarm Conference	Asilomar Conference Grounds, Pacific Cove, CA	http://www.eco-farm.org
1.25.16 – 1.27.16	Cleantech Forum – San Francisco	Parc 55 Hotel San Francisco, CA	http://events.cleantech.com/cleantech-forum-sf
1.25.16 – 1.27.16	Ecotourism and Sustainable Conference – ESTC America	University of South Florida Tampa, FL	http://www.ecotourismconference.org
2.18.16 – 2.19.16	Net Positive – Energy & Water Conference	Manchester Grand Hyatt San Diego, CA	http://www.netpositiveconference.org
2.23.16 – 2.25.16	GreenBiz Forum 2016	JW Marriott Camelback Inn Resort & Spa Scottsdale, AZ	http://www.greenbiz.com/event/2016/02/23/greenbiz-forum-2016

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