SPINNAKER

FOSSIL FUEL FREE INVESTING

Fossil Fuel Free FAQ

What is Fossil Fuel Free investing?

Fossil fuel free investing is a form of socially responsible investing where investors choose to divest their portfolio from fossil fuel companies (e.g. oil, gas, and coal) in response to rising concerns about climate change and sustainability. Over the past few years, several organizations and educational institutions have chosen to divest to different degrees, including Stanford University, Dayton University, the Unitarian Universalist Association and our client Unity College in Maine, among others.

How did Spinnaker Trust get involved with Fossil Fuel Free investing?

After managing the Unity College Endowment Fund for several years, the college requested that Spinnaker Trust divest its endowment from fossil fuel companies. Originally, Spinnaker developed the Fossil Fuel Free (FFF) Portfolio model in 2011 with help from research provided by the Carbon Tracker Initiative. Carbon Tracker's research identified the top 200 oil, gas, and coal companies based on estimates of the potential CO2 emissions of their reported reserves. Carbon Tracker asserted that, if laws regulating emissions are passed as they are expected to over the next two decades, then these assets are being overvalued by investors. Carbon Tracker no longer updates this research; however, Fossil Free Indexes (FFI) uses a similar methodology to create a list of 200 companies called the 'Carbon Underground 200'. FFI's research will form the basis for tracking the FFF Portfolio's exposure to fossil fuels going forward. Today, the FFF portfolio is made up of less than 1% of these companies while still employing Spinnaker's global all-cap exchange traded fund (ETF) investment strategy.

What is the Carbon Tracker Initiative and why was it developed?

The Carbon Tracker Initiative is a non-profit organization working to align the capital markets with the climate change policy agenda. It provides an innovative research framework that is able to integrate the financial markets and the climate change sector into a comprehensive and consistent perspective with the goal of preventing the materialization of carbon-related risks in the capital markets.[1] Soon after its debut, Carbon Tracker became affiliated with 350.org, which used Carbon Tracker's research to launch the divestment movement.

350.org was founded by a group of university friends in the U.S. along with author Bill McKibben, who wrote one of the first books on global warming for the general public. Today, 350.org works in almost every country in the world on campaigns like fighting coal power plants in India, stopping the Keystone XL pipeline in the U.S. and divesting public institutions everywhere from fossil fuels.[2]

Together these organizations have formed a powerful coalition advocating for divestment and increased shareholder activism. In particular, research provided by the Carbon Tracker Initiative formed the foundation for Spinnaker Trust's FFF Portfolio.

Why should the climate-conscious investor consider divesting?

Divesting gives an investor several ways to have a positive impact on climate change. Initially, divesting is about taking the first step in aligning your values with your investment strategy. It sends the message that you will not support fossil fuel companies as long as their business(es) continues to harm the planet. Over the long term, divesting reduces your risk of holding stranded carbon assets, as defined by the Carbon Tracker Initiative, and gives investors the opportunity to diversify in companies developing clean energy technology; leading the transition to a more sustainable economy.

How does divestment affect performance?

The first reaction of many investors to investing is that screening negatively for fossil fuel companies will adversely affect a portfolio's risk and return. The Spinnaker Trust FFF Portfolio has not been in existence long enough to properly draw any conclusions on performance, however, several

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[1] Carbontracker.org/site/about-us

[2] 350.org/about/what-we-do

leading investment firms have conducted research to shed light on this issue.

In the 2013 report *Do the Investment Math: Building a Carbon-Free Portfolio,* the Aperio Group investigated how a fossil fuel free portfolio would perform against its benchmark, the Russell 3000. Aperio concluded that such a portfolio had a historical tracking error of only 0.78% over rolling 10 year periods from 1988 to 2012 compared to the benchmark, and actually outperformed the benchmark 73% of the time. In a similar report *Responding to the Call for Fossil-Fuel Free Portfolios,* MSCI ESG Research determined that, over a 10-year time period from June 2003 to May 2013, the annualized performance penalty for the 'ex-carbon' portfolio was 0.16%, and that the tracking error over the same time was 0.99%.

While these studies in no way guarantee future performance, they do give an investor a clear picture of how some hypothetical portfolios have performed against their benchmarks.

How does Spinnaker Trust benchmark its Fossil Fuel Free Portfolio?

Currently, Spinnaker Trust uses a custom benchmark that underweights both the energy and basic materials sectors compared to the S&P 500. However, over the past few months, several companies have introduced indexes that are under consideration by Spinnaker. For example, Fossil Free Indexes introduced its Fossil Free Indexes US Index in early 2014, which is built to track the S&P 500 while screening negatively for 'The Carbon Underground 200'. Additionally, the company provides indices for Fossil Free Developed Markets (ex-U.S.) and Fossil Free Emerging Markets.

Cumulative Performance	3 Month	6 Month	YTD	1 Year	3 Year	5 Year	10 Year
FFIUS	2.79%	6.64%	3.95%	16.57%	48.50%	120.59%	77.91%
S&P500	3.45%	6.70%	4.07%	16.27%	45.10%	112.12%	72.82%

How does Spinnaker Trust differentiate itself from its peers?

Currently, the majority of funds use a U.S. large-cap strategy whereas Spinnaker's FFF Portfolio employs a global all-cap strategy, which we feel provides greater diversification and less risk. However, we recognize that there may be similar options for investors looking to divest their portfolios from fossil fuel companies. To that end, Spinnaker's added value comes from its ability to provide clients with tax and estate planning, tax preparation, and trustee services in an effort to help clients achieve their long-term goals. By having all of these services in-house, Spinnaker is able to offer a more efficient and convenient wealth management experience to its clients.

Allocation Chart vs. S&P 500:
US Equity Sector Allocation vs. Benchmark (July, 2014)

Sector	Spinnaker FFF	S&P 500
Technology	23.4%	18.8%
Financials	21.0%	16.0%
Health Care	18.8%	13.3%
Consumer Discretionary	10.8%	11.9%
Industrials	12.3%	10.7%
Energy	2.4%	10.5%
Consumer Staples	7.0%	9.7%
Basic Materials	1.5%	3.5%
Utilities	0.5%	3.1%
Telecom	2.3%	2.5%