Special Report on Divestment at the University of Mary Washington

Researched and written by a subcommittee of The President's Council on Sustainability
Approved by the Council as a whole

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Introduction

The Earth's climate is undergoing dramatic and unprecedented changes. This is clear even as we finalize this report. February 2016 was recognized as the warmest month since global temperature averages were first tabulated using satellite data.[1] The January preceding it was the warmest January on record. These monthly records follow the year 2015, which was itself the warmest in recorded history.[2] Beyond increased average temperature, we can observe other recent changes in the Earth's systems as well. Arctic sea ice levels have fallen to record lows for this time of year, while the Southern Hemisphere recently experienced its strongest winds ever recorded in an exceptionally powerful tropical cyclone.[3] [4] These events are all highly associated with global warming.[5]

There is no reasonable doubt today that global warming is occurring, and that current rates of warming are caused primarily by human activity, especially from greenhouse gas emissions from the burning of fossil fuels.[6] While our society is heavily dependent on fossil fuels, there is scientific consensus that we will need to transition away from these energy sources in the coming decades to avoid rates of warming that threaten our collective wellbeing. The recent Paris Agreement on Climate Change, signed in December of 2015, demonstrates that there is an emerging global political commitment to do so.[7]

Faced with the challenge of climate change, how should the University of Mary Washington, which aims to be a statewide leader in sustainability and the environment, respond? As a liberal arts institution, UMW should place its primary focus on equipping students with the scientific literacy and critical thinking skills needed to address future climate-related problems. But many UMW students are also insisting that their university take more of a leadership role in response to the climate crisis by divesting its foundation from major fossil fuel companies.

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[1] Samenow, Jason. 2016. "February was Warmest Month in Satellite Record." *Washington Post*, March 1. https://www.washingtonpost.com/news/capital-weather-gang/wp/2016/03/01/february-was-earths-warmest-month-in-satellite-record/

[2] Kahn, Brian. 2016. "January Smashes Another Global Temperature Record." *Climate Central*, Feb 16. http://www.climatecentral.org/news/january-global-temperature-record-20035

[3] National Snow and Ice Data Center. 2016. "January Hits New Record Low in the Arctic." *Arctic Sea Ice News and Analysis*, February 4th. https://nsidc.org/arcticseaicenews/2016/02/january-hits-new-record-low-in-the-arctic/

[4] Masters, Jeff. 2016. "Winston's 185 mph Winds in Fiji: Southern Hemisphere's Strongest Storm on Record." *Weather Underground*, Feb 20th. http://www.wunderground.com/blog/JeffMasters/winstons-185-mph-winds-in-fiji-southern-hemispheres-strongest-storm

[5] American Association for the Advancement of Science. 2014. What we Know. AAAS report on climate change and its likely impacts. http://whatweknow.aaas.org/wp-content/uploads/2014/07/whatweknow_website.pdf

[6] Ibid.

[7] Davenport, Coral. 2015. "Nations Approve Landmark Climate Accord in Paris." *New York Times*, Dec 12. http://www.nytimes.com/2015/12/13/world/europe/climate-change-accord-paris.html

What is Divestment?

In the broadest terms, divestment refers to the process of reducing or eliminating assets such as stocks, bonds, or other investments. There are many potential motives for divestment, such as a determination that an asset is risky from an investment standpoint, unethical or ethically ambiguous, or some combination thereof.

In recent history, there have been several notable global divestment movements, most notably those related to systematic violence in Darfur, the tobacco industry, and South Africa's former apartheid regime. Such movements raise complex questions about the relationship between financial management and ethical responsibility, and demonstrate that it is often difficult or impossible to disentangle the two in our highly globalized economy.

In recent years, these complex questions have been amplified to an unprecedented scale by the global movement to divest from fossil fuels. Briefly, this movement entails governments, institutions such as universities and colleges, retirement funds, and religious organizations electing to divest from fossil fuel companies for both ethical and financial reasons (see Question 1). Unlike previous divestment movements, the ethical concern at the center of this movement is not the treatment of a particular population, the policies of a particular state-government, or the harmfulness of a specific commodity to its individual consumers. Rather, it is the future habitability of planet Earth in the face of incontrovertible evidence that greenhouse gas emissions from the use of fossil fuels are escalating climate change.[8]

The scale of these concerns helps to explain how rapidly the divestment movement is expanding. For example, one can consider the following figures: by September 2015, an estimated 400 institutions had divested $2.6 trillion in fossil fuels. But as of December 2, 2015, in the wake of the 2015 United Nations Climate Change Conference in Paris, France, an estimated 500 institutions have committed to divest $3.4 trillion in fossil fuel assets.[9]

Overview and Objectives of this Report

The objective of this report is to provide a comprehensive, research-based assessment of whether or not the University of Mary Washington should officially divest from fossil fuels. Beginning in 2014, UMW students, especially those represented by the organization Divest UMW, joined the national discussion on endowments and their role in fossil fuels investments. So far, students have spent two years advocating for divestment at UMW, having collected more than 1,000 student signatures on a petition to divest and having mounted a weeks-long sit-in in George Washington Hall in the Spring of 2015.

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[8] American Association for the Advancement of Science. 2014. What we Know. AAAS report on climate change and its likely impacts. http://whatweknow.aaas.org/wp-content/uploads/2014/07/whatweknow_website.pdf

[9] Mattuach, Melanie. 2015. "In the Space of Just 10 Weeks…" *Fossil Free*, Dec 2. http://gofossilfree.org/in-the-space-of-just-10-weeks/

In the following August, President Hurley charged the President's Council on Sustainability (PCS) – which is comprised of faculty, staff, and students – to further look into the subject of fossil fuel divestment and to compile a report. The President's Charge asked the PCS to answer the following questions:

1. What are the pros and cons of divesting from the fossil fuel industry?
2. What alternative strategies can the university follow to address the ultimate goal of impacting climate change?
3. What does UMW already do that addresses sustainability concerns?
4. What would the financial impact be on our endowment if we divest?
5. What is the feasibility of divestment, given the investment profile of the UMW Foundation (e.g. disentangling of a specific type of investment from broad-based funds-of-funds)?
6. Determine whether or not any UMW divestment decision would impact relevant industries, global climate change, and sustainability goals.
7. Examine higher education institutions that have divested and report how they did it and the impact of their decision, i.e. return on investments.

A subcommittee of PCS members has examined the issue of divestment from a range of perspectives to the best of our abilities and with the best information available to us, which we describe in this report. Each of the following sections answers a question in the charge. Taken together, the report gives an assessment of possible risks and/or benefits, as well as an assessment of possible ethical implications, of divesting or not divesting.

Recommendations

Based on our research, the President's Council on Sustainability makes the following recommendations. These recommendations are listed as Option A, which sets a more ambitious threshold for divestment, and Option B, which proposes a threshold that is slightly less ambitious. We provide both options in order to highlight the fact that there are a range of divestment possibilities that the President and Board of Visitors could choose as they balance the need to respond to the climate crisis along with their financial responsibilities to students and the University.

Option A: The UMW Foundation should maintain an investment portfolio that is 99% free of investments in the 200 largest fossil fuel companies. This includes both direct investments and investments in passively managed index funds. A list of the 200 largest companies is regularly compiled by the Fossil Free Indexes (see footnote link or appendix A for the current list).[10]

[10] Fossil Free Indexes. 2015. "Carbon 200." http://fossilfreeindexes.com/divestinvest/

Option A is directly informed by the Union of Concerned Scientists' investment strategy on fossil fuels and sustainability (See footnote link or Appendix B for a description of the Union's strategy).[11] However, while the Union of Concerned Scientists' investment portfolio met their goal to become 98% free from investments in the 200 largest publicly traded fossil fuel companies (the Carbon 200) in June 2015, we believe that a more ambitious benchmark is feasible given the recent declines in fossil fuel stock values. Additionally, UMW's new financial advising firm Artemis Wealth Advisors projects that the UMW foundation will already be 99.7% free from the Carbon 200 by June 2016 (see Appendix C for Artemis' projections). In other words, *a decision to maintain the UMW foundation 99% free from the Carbon 200, effectively achieving divestment, would require no actual changes in the UMW foundation's currently anticipated portfolio*.

Option B: The UMW foundation should maintain an investment portfolio that is 98% free from the Carbon 200. This option also directly borrows from the Union of Concerned Scientists investment strategy on fossil fuels, but maintains the 98% Carbon 200-free threshold the organization itself adopted. Like Option A, this strategy would require no current change in the UMW anticipated investment portfolio. While setting a less ambitious threshold than Option A, which is less in line with overall goals of the divestment movement, this option could provide some additional flexibility for foundation managers during market fluctuations.

What we are not recommending: We are not recommending complete divestment from fossil fuels for two primary reasons. First, we examined the University of Hawaii's experience with divestment and found that it is highly challenging to eliminate more than 99% of investments from *all* fossil-fuel related companies because of the difficulty in determining exactly which companies qualify. In an economy dependent upon oil, coal, and natural gas, identifying which companies might have fossil-fuel related business activities can be difficult. It is for this reason that a foundation manager at the University of Hawaii, in an interview for this report, recommended that we use a more precise and more limited definition of divestment (See Divestment Charge Question #7 for more details). Following this advice, we recommend divesting only from those major fossil fuel companies on the Carbon 200 list.

Second, according to Artemis' projections for June 2016, it is our understanding that the UMW Foundation will have a 2.2% total exposure (which includes indirect investments) to fossil fuels. Becoming 100% fossil-free would require changes to our investment portfolio, which could result in additional expenses and/or lost revenue. This might be considered contrary to the purpose of the endowment, which is to increase the accessibility and quality of a UMW education.

[11] Union of Concerned Scientists. 2015. "Our Road to Divestment." http://fossilfreeindexes.com/divestinvest/

The Rationale for Our Recommendations

As described in more detail in the following sections, we recommend divesting – at either a 99% (option A) or 98% (option B) threshold – from the Carbon 200 for these main reasons:

- Divestment would cause little to no impact on our current investment portfolio and, presumably, management costs.
- It makes financial sense. Stocks in large fossil fuel corporations have been consistently underperforming compared to other investment opportunities in the past few years. While fossil fuel stocks might rebound in the short term, the recent Paris Agreement on Climate Change signals that the era of fossil fuel dependency must end if humanity is to avert the worst impacts associated with a warming planet.
- It provides a major opportunity to establish UMW as a sustainability leader among higher education institutions not only in Virginia, but across the nation. This may play a role in the recruitment and retention of excellent students and faculty, and will help to distinguish us from our competitors.
- There is a strong moral case for divestment. Dependence upon coal, oil, and other fossil fuels is putting future generations at risk. For this reason, it may not be moral to profit from fossil fuels.
- There is a strong political case for divestment. Fossil fuel companies have sought to exert political influence to maintain our society's dependence upon coal, oil, and natural gas. As more and more colleges, universities, philanthropic foundations, and cities divest from fossil fuel companies, the movement may help counter this political influence and send a signal to the rest of society about the need to transition to renewable forms of energy.

Divestment Charge Question #1: What are the pros and cons of divesting from the fossil fuel industry?

Arguments in Favor of Divestment

The moral case for divestment

Global warming threatens to impose costly and dangerous impacts to the United States and to the Commonwealth of Virginia, most notably to the Hampton Roads region of our state, which is considered one of the most vulnerable places in North America to sea level rise.[12] [13]

Recent investigative reporting has shown that major fossil fuel companies have known about both the reality of human-driven climate change and its potential severity since the late 1970s.[14] [15] Rather than deciding to invest in less carbon-intensive forms of energy, many of these companies decided to pursue a public relations campaign to undermine the findings of climate science and to mislead Americans about the causes and potential consequences of climate change.[16] [17]

More importantly, major fossil fuel companies today hold enough oil, gas, and coal reserves that, if burned, would cause extreme climatic disruptions. If humanity is to avoid potentially catastrophic rates of warming, the majority of these fossil fuel reserves must be kept underground.[18] For these reasons, a strong moral argument can be made that maintaining investments in such companies is not consistent with the University of Mary Washington's public mission.

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[12] American Association for the Advancement of Science. 2014. *What We Know*. AAAS report on climate change and its likely impacts. http://whatweknow.aaas.org/wp-content/uploads/2014/07/whatweknow_website.pdf

[13] Montgomery, Liza. 2014. "In Norfolk, Evidence of Global Warming is in the Streets at High Tide." *Washington Post*, May 28. http://www.washingtonpost.com/business/economy/in-norfolk-evidence-of-climate-change-is-in-the-streets-at-high-tide/2014/05/31/fe3ae860-e71f-11e3-8f90-73e071f3d637_story.html

[14] Banerjee, Neela, Lisa Song and David Hasemyer. 2015. "Exxon's Own Research Confirmed Fossil Fuels' Role in Global Warming Decades Ago." *Inside Climate News*, Sep 16. http://insideclimatenews.org/content/Exxon-The-Road-Not-Taken

[15] Banerjee, Neela. 2015. "Exxon's Oil Industry Peers Knew About Climate Dangers in the 1970s, Too." *Inside Climate News*, Dec. 22. http://insideclimatenews.org/news/22122015/exxon-mobil-oil-industry-peers-knew-about-climate-change-dangers-1970s-american-petroleum-institute-api-shell-chevron-texaco

[16] Farrell, Justin. 2015. "Corporate Funding and Ideological Polarization about Climate Change." *Proceedings of the National Academy of Sciences* 113: 92-97.

[17] Brulle, Robert J. 2014. "Institutionalizing Delay: Foundation Funding and the Creation of US Climate Change Counter-Movement Organizations." *Climate Change* 122: 681-694.

[18] McGlade, Christophe and Paul Ekins. 2015. "The Geographical Distribution of Fossil Fuels Unused When Limiting Global Warming to 2° C." *Nature* 517 (187-203).

The financial case for divestment

If much of the oil, gas, and coal reserves claimed by major fossil fuel companies cannot be extracted and burned without further warming the Earth's climate beyond acceptable limits, there is the significant risk that these companies' stocks are overvalued. In other words, there is a risk that a "carbon bubble" has developed, making investments in these companies potentially overvalued and financially unsafe.[19] Over the past year, energy stocks have lost significant value.[20] While fossil fuel stocks will likely rebound in the short term, the recent United Nations Agreement on Climate Change (the Paris Accord) signals that governments around the world intend to transition away from the use of fossil fuels to more sustainable forms of energy as soon as possible. Given that these transitions are now underway, it may be unwise to make or maintain any large investments in this industry.

The reputational advantage

The University of Mary Washington has actively sought to distinguish itself from its peers in the increasingly competitive market of higher education. While nothing can replace the value of investments in students, faculty, and staff, one way that the University might rise above peer institutions is by building a reputation for sustainability and environmental commitment. The University has already begun building this reputation through, for instance, our success in national recycling competitions and our recent placement in the Princeton Review of 353 Green Colleges.

By acting now, UMW could become the first university in Virginia and the first public university in the South to divest from fossil fuel holdings. By becoming an early actor, our school would gain positive news coverage around the nation and would get a boost in our ability to attract top-quality environmentally-minded and socially responsible students. Building a reputation as a regional and state leader in sustainability is likely to pay off in years to come, as students will be increasingly drawn to schools with strong "green" credentials as they look to develop careers in emerging fields like renewable energy and sustainability management.

Arguments Against Divestment

The "slippery slope" argument

The university endowment was created to sustain and improve the quality of education at our school. Some might fear that divesting from major fossil fuel companies could open the door to other kinds of divestment movements. In this way, some may worry that fossil fuel divestment could create a "slippery slope," in which the endowment becomes increasingly managed to reflect various groups' political goals instead of maximizing value to benefit the school. Some

[19] Carbon Tracker Institute. 2011. "Unburnable: Are the World's Financial Markets Carrying a Carbon Bubble." http://www.carbontracker.org/wp-content/uploads/2014/09/Unburnable-Carbon-Full-rev2-1.pdf

[20] Kawa, Luke. "Morgan Stanley Has Given Up on Energy Stocks: Here's Why." *Bloomberg*, Sept 28. *Bloomberg Business*. http://www.bloomberg.com/news/articles/2015-09-28/morgan-stanley-has-given-up-on-energy-stocks

members of the university community might see this prospect as a cost to the University and its endowment.

There are several reasons that divesting from fossil fuels may not create this slippery slope. For one, the climate crisis facing humanity truly is exceptional. It is the subject of continuous alarm from the world's top scientists and scientific organizations. It has warranted numerous high-profile negotiations and treaty-making sessions amongst the nations of the world. And moral and religious leaders from across the globe have urged people to take the threat of climate change seriously and to transition swiftly toward low-emissions economies. Given the exceptional nature of climate change, it does not necessarily follow that divesting from major fossil fuel companies will lead to a slippery slope, in which the endowment is subjected to further demands for divestment from other types of companies.

Furthermore, the historical precedent of the largest divestment effort in recent memory, the effort to keep university endowments from investing in companies doing significant business with the apartheid regime in South Africa, suggests that the potential for creating a slippery slope is very slim. Many universities and colleges from around the country eventually divested from these companies. But after they did so, they were not pushed to concede to other divestment demands from groups in favor of other causes.

The financial case against divestment

Because society will need to transition away from fossil fuels, investments in fossil fuel companies appear to be a very poor long-term investment. In the short term, however, the situation is more uncertain.

Endowments that divested in the past year were likely financially advantaged, compared to those that didn't, due to the recent declines in the value of fossil fuel companies. But what will happen over the next few years ahead is uncertain. Published research is inconclusive, with different reports indicating that divestment could bring financial advantages or disadvantages (see the answer for Question #4 for further discussion). Any potential short-term losses from divestment should be weighed against the long-term financial and reputational advantages discussed earlier, and should also be viewed in light of the moral case for divestment.

Questions about the effectiveness of divestment

Can divesting a single endowment from fossil fuel companies make a difference in terms of our collective ability to respond to climate change? The short answer is no. UMW's holdings in fossil fuels represent only a tiny fraction of global investments in the industry. In this sense, supporters of divestment have to concede that the University of Mary Washington's individual decision to divest would not, by itself, have a significant impact on global sustainability efforts.

Supporters of divestment, however, believe that there could be long-term and collective benefits if UMW divests from major fossil fuel companies, not by itself, but in convergence with other colleges, universities, foundations, and cities. The aim of divestment, according to its supporters, is not to immediately transform the fossil fuels industry, but rather to signal to the rest of society that we must begin our transition to more sustainable energy sources.

Additionally, some wonder if divesting from the fossil fuels industry would be less effective than working to influence these companies, as direct investors, toward renewable energy. However, the UMW Foundation does not directly invest in fossil fuel companies, but holds these investments indirectly through ownership of index funds. So, unless the university plans to change this investment structure, which is not recommended here, this is a moot point.

Merely a symbolic gesture?

Giving voice to another concern about the potential effectiveness of divestment, some might charge that divestment would be a *mere symbolic gesture*, given that such a small percentage of UMW's portfolio is currently invested in fossil fuels. While we acknowledge that such a decision might be largely symbolic, in that divesting from the Carbon 200 at a 99 or 98% threshold would not require any real changes in UMW's investment portfolio, we also think that it could nonetheless be of great worth.

Drawing upon a vast body of literature in the social sciences that examines the role of symbolic meaning in generating value (whether in goods, services, or an institution such as a university), we believe that divestment could play a role in articulating what the University of Mary Washington "stands for." This symbolic capital has the potential to convert into economic capital, as prospective students will receive the message that UMW is an institution that does the right thing. By all accounts, young people today strongly value and seek out direct involvement in the "social good," with a reported 60% wanting to have an impact on the world. Six out of 10 college-ready students go out of their way to buy goods and services that are "visibly connected to doing good," and they are savvy consumers who know the difference between "image and reality."[21] And of the 9,650 prospective college students surveyed for the Princeton Review's 2015 College Hopes and Dreams study, 60% said that a college's "commitment to environmental issues" would influence their decision to apply or attend.[22] We believe divestment will carry strong appeal with prospective students looking for a university that is authentically committed to values they share.

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[21] Last, Andy. 2014. "Five Reasons Why 'Generation Z will be the Ones to Save Us." *Stakeholder Trends and Insights*, Oct 30. http://www.sustainablebrands.com/news_and_views/stakeholder_trends_insights/andy_last/5_reasons_generation_z_could_be_ones_save_us

[22] The Princeton Review. 2015. "2015 College Hopes and Worries Survey Report." http://www.princetonreview.com/college-rankings/college-hopes-worries

A hypocrisy disadvantage?

The University of Mary Washington is largely heated by natural gas. Students, faculty, and staff drive from across the region, most using gasoline, to attend class or go to work. To put it bluntly, our university community is deeply dependent upon fossil fuels. This might raise the concern that it would be hypocritical of the foundation to divest from the Carbon 200 given this dependence, and perhaps even adversely affect the University's credibility.

While supporters of divestment acknowledge the UMW community's fossil fuels dependence, they do not see a "hypocrisy disadvantage" here. Supporters believe that we are so dependent upon oil, coal, and gas because, right now, the University and individual students, faculty, and staff have little choice. The goal of the divestment movement is to urge national decision-makers to actively invest in a renewable energy infrastructure, an adequate mass transit system, and other emerging green technologies that could make our community and society as a whole less reliant on fossil fuels.

Divestment Charge Question #2: What alternative strategies can the university follow to address the ultimate goal of impacting climate change?

There are a number of alternative strategies that the university could pursue in addition to making the commitment to divest from fossil fuels. If we were to pursue these (some of which we are already looking into) in addition to divesting, it would help the institution make an even greater case for our status as a university committed to sustainability.

Other universities have adopted the following alternate strategies to demonstrate a commitment to becoming sustainable:

- Increase the size of the university sustainability office.
- Increase focus on energy efficiency and other measures to reduce energy use on campus.
- Institute a "Green Fund" that alumni can invest in that is divested from fossil fuels.
- Provide grants to students for green project ideas, in a program similar to the GIFT grant at the University of Virginia.[23]
- Join colleges and universities across the country who have signed the Climate Leadership Commitment, which seeks to create carbon-neutral campuses while advancing climate resilience.[24]
- Increase the percentage of electricity purchases from sustainable energy sources such as wind and solar. For instance, UMW might set the goal of joining other universities in our region – like American University, Georgetown, and the Catholic University of America – on the EPA's list of the top 30 schools for green energy purchases.[25]
- Install green energy technologies, such as solar panels and wind turbines, to produce renewable energy on campus.

A key message here is that UMW could do much more to address climate change, which is one of the paramount challenges of our time. The members of the President's Council on Sustainability do not advise choosing one of these policies listed here over another, but support an "all of the above" approach. We also understand that some of these options, such as substantially increasing energy from renewable sources, or even aiming to achieve carbon neutrality, could be prohibitively expensive for our small public university. Divesting from the Carbon 200 at a 99% or 98% threshold, on the other hand, would impose little cost, yet could potentially have a big impact when combined with a growing number of other divestment commitments from around the world.

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[23] UVA. 2016. "Grants." Sustainability - University of Virginia webpage. http://sustainability.virginia.edu/news/funding/grants.html

[24] Climate Leadership Commitments. 2016. "Climate Leadership Statement." http://secondnature.org/climate-guidance/the-commitments/

[25] EPA. 2016. "Top 30 College & University." Green Power Partnership Webpage, Jan 25. https://www3.epa.gov/greenpower/toplists/top30ed.htm

Divestment Charge Question #3: What does UMW already do that addresses sustainability concerns?

UMW's strategic planning has consistently committed the University to sustainability. One objective in the 2009-2015 plan was to manage "resources to meet the social, economic, and environmental needs of the present without compromising the ability to meet the needs of future generations." The 2009 plan also stated that sustainability should be a strong component of future endeavors to ensure that UMW takes responsibility for all actions. The President's Council on Sustainability was formed in Fall 2009 and consists of faculty, staff, and students. The PCS plays a critical role in shaping administrative goals and objectives related to campus sustainability. The 2015-2020 Strategic Plan further underscores UMW's commitment to sustainability.

As the end of year reports from the President's Council on Sustainability attest, UMW has made many advances over the past six years with respect to sustainability concerns. Academically, UMW now has an interdisciplinary minor in Environmental Sustainability based in the Department of Earth and Environmental Sciences and an annual Environmental Studies Research Colloquium where faculty members from a wide range of disciplines present their work to fellow faculty, staff, and students. UMW is fortunate to have many committed faculty members whose research and teaching seeks to raise awareness about environmental and social concerns.

UMW is recognized as a leader in Virginia regarding recycling and has worked for years to incorporate composting on campus and reduce food waste, including the elimination of trays from the dining facilities. New buildings on campus are LEED-certified as required by Virginia state regulations, although none of them take advantage of renewable energy resources. Many PCS initiatives add up to significant differences in the UMW campus ecological footprint. The university has adopted two-sided printing as the default option, planted native plants, managed our landscape and grounds in more sustainable ways, conducted energy audits, and installed automatic light switches in many buildings on campus. The PCS is helping UMW earn nationally recognized Tree Campus status. In fact, UMW was listed in the Princeton Review of Green Colleges for the first time in 2015.

Please refer to the PCS annual reports in Appendix D for more details on sustainability-related accomplishments on campus.

Divestment Charge Question #4: What would the financial impact be on our endowment if we divest?

The effect of divesting our endowment from the Carbon 200 at either a 99% or 98% threshold cannot be predicted with certainty. The performance of a divested endowment depends on the allocation of the new portfolio as well as the overall performance of the stock market. Prediction is further complicated by the fact that the UMW endowment is currently transitioning between management services. The new management firm, Artemis, has provided the UMW Foundation with a projected portfolio, but cannot provide definitive information until they have full control over the funds. Given this fact, there are some uncertainties in terms of knowing the exact financial impact of divestment on our endowment. At the same time, however, there is an emerging literature that estimates the potential impacts of divestment on investment performance by comparing past performance of traditional vs carbon-free portfolios and indexes:

- Morgan Stanley Capital International (MSCI) reported in 2013 that excluding fossil fuels from its All Country World Investable Market Index from 2008-2013 would increase annual returns an average of 0.22%. The All Country World Index outperformed the fossil-free portfolio over a ten-year period (2003-2013) by an average of 0.16% annually.[26]

- A 2013 white paper from IMPAX Asset Management Group, a green investment firm, analyzed historical stock performance data from the MSCI World Index (2006-2013) and found that portfolios that excluded fossil fuels or replaced them with alternative energy investments performed 0.1% to 0.5% better than portfolios that included fossil fuel stocks.[27]

- In a study commissioned and funded by the Independent Petroleum Association of America, Bradford Cornell (2015) estimated the costs of divestment by creating divested and non-divested "proxy portfolios" for five prominent American universities (Columbia, Harvard, Massachusetts Institute of Technology, Yale, and New York University) and comparing their performance for 1995-2015.[28] He concluded that excluding fossil fuel investments from these hypothetical endowments would decrease annual returns an average of 0.23%, with an average 12% decrease in endowment value over a 50-year

[26] Morgan Stanley Capital International. 2013. FAQ: Responding to the Call for Fossil-fuel Free Portfolios. MSCI ESG Research Brief. https://www.msci.com/resources/factsheets/MSCI_ESG_Research_FAQ_on_Fossil-Free_Investing.pdf

[27] IMPAX Asset Management. 2013. Beyond Fossil Fuels: The Investment Case for Fossil Fuel Divestment. http://www.impaxam.com/sites/default/files/20130704%20Impax%20White%20Paper%20fossil%20fuel%20divestment%20FINAL.pdf

[28] Cornell, B. 2015. The Divestment Penalty: Estimating the Costs of Fossil Fuel Divestment to Select University Endowments. Available at SSRN 2655603.

period. However, some may argue that it is important to take the funding source (in this case, a fossil fuel association) of this research into account when considering its findings.

- Data from the Financial Times Stock Exchange is another tool for estimating the financial impacts of divestment. Several FTSE indices exclude companies with high exposure to coal and other fossil fuels. Between 2010 and 2015, each of these indices with reduced fossil fuel exposure produced higher cumulative returns than the corresponding traditional index.[29]

It is important to note that retrospective data cannot account for the impact that future climate change legislation may have on the valuation of fossil fuel companies.[30] In order to meet the Intergovernmental Panel on Climate Change (IPCC) goal of capping global climate change at 2°C, greenhouse gas emissions must be drastically reduced.[31] This would make the majority of the world's estimated carbon reserves "unburnable," thus decreasing the projected growth of fossil fuel companies. Uncertainty about this "carbon bubble" could make fossil fuel investments more risky than they have been in the past; minimizing fossil fuel investments avoids this potential risk.

A Caveat on Complete Divestment from Fossil Fuels

While maintaining an investment portfolio that is 99% or 98% free from the Carbon 200 could potentially produce favorable outcomes, this report does not recommend full-scale divestment from all fossil fuels. Artemis, UMW's new wealth management advising firm, analyzed the institution's current portfolio and began making projections on how they will reallocate various investments. The chart provided in Appendix C gives an overview of the current portfolio as well as their projected portfolio allocation for June 2016. The projected proposal indicates an exposure to the Carbon 200 of 0.3% and an overall fossil fuel exposure of 2.2%.

There are potential costs in taking the portfolio from 97.5% to 100% fossil-free, including fees from breaking lock-up periods on the real assets allocation. It is common practice for these funds to have long investment time horizons and illiquidity. As mentioned in the chart, some of these lock-ups are in place until 2026. While this would involve only a small portion of the portfolio, breaking these lock-ups to sell any remaining fossil fuel stocks could present significant costs.

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[29] FTSE Russell, 2015. FTSE All-World ex Fossil Fuels Index Series. http://www.ftse.com/products/indices/ex-fossil-fuels

[30] Ritchie, J., and Dowlatabadi, H. 2015. Divest from the Carbon Bubble? Reviewing the Implications and Limitations of Fossil Fuel Divestment for Institutional Investors. Review of Economics & Finance *5*, 59–80

[31] IPCC, 2013: Summary for Policymakers. In: *Climate Change 2013: The Physical Science Basis*. Contribution of Working Group I to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Stocker, T.F., D. Qin, G.-K. Plattner, M. Tignor, S.K. Allen, J. Boschung, A. Nauels, Y. Xia, V. Bex and P.M. Midgley (eds.)]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA.

Divestment Charge Question #5: What is the feasibility of divestment, given the investment profile of the UMW Foundation (e.g. disentangling of a specific type of investment from broad-based funds-of-funds)?

As the UMW Foundation is currently transitioning between financial management companies, our answer to this question is based on Artemis' anticipated portfolio. Artemis, the incoming management firm, cannot provide specific information until they have full control over the funds. However, as of December 2015, Artemis anticipated that the new portfolio under their management will have approximately 2-3% indirect holdings in fossil fuel companies, including 0.3% exposure to companies on the Carbon 200 list. This is comparable to other university endowments: according to the NACUBO-Commonfund 2011 Study of Endowments, university endowments in the United States have an average of 2-3% equity exposure to fossil fuels.[32] Given that these predictions indicate that the UMW Foundation will hold far less of a percentage of investments in the Carbon 200 than the thresholds recommended in this report (divestment at 1 or 2% or less), divestment would *not* require the Foundation to change its expected investment profile.

Of course, since maximizing returns is the primary aim of our endowment managers, the estimated level of exposure to fossil fuel stock could change based on market performance. The relatively small proportion of fossil fuel investments in the projected portfolio reflects the fact that fossil fuels are not the most profitable sector in the current market. This indicates that divestment and profit-maximization are not incompatible goals in the current economy. Should markets shift, the 1 or 2% divestment threshold would accommodate a small increase in indirect ownership of Carbon 200 companies, although this is not advocated in this report. Given these factors, it appears to be feasible for UMW to divest by committing to *maintain* a portfolio with less than 1 or 2% of investments allocated to Carbon 200 companies.

[32] Ansar, A., Caldecott, B., & Tilbury, J. 2013. *Stranded assets and the fossil fuel divestment campaign: what does divestment mean for the valuation of fossil fuel assets?* Oxford: Smith School of Enterprise and the Environment, University of Oxford. Retrieved from http://www.smithschool.ox.ac.uk/research-programmes/stranded-assets/SAP-divestment-report-final.pdf

Divestment Charge Question #6: Determine whether or not any UMW divestment decision would impact relevant industries, global climate change, and sustainability goals.

Would a UMW divestment decision impact relevant industries?

There is no evidence that divestment would have a *direct* or *immediate* financial impact on fossil-fuel industries. Leaders of the divestment movement do not make these claims; instead they present divestment as a moral and political statement about the fossil fuel industry's impact on the environment.[33] Previous divestment campaigns, such as those targeting tobacco, alcohol, munitions, and the South African apartheid regime, were also founded with moral motivations. This campaign aims to stigmatize the industries that produce the most greenhouse gas emissions in order to ease the way for more stringent environmental legislation.[34]

Even though carbon divestment of one or several institutions would not have an immediate financial impact on the fossil fuel industry, the divestment movement could threaten the value of targeted companies over the long term. A stigma attached to a fossil fuel company might "scare away" suppliers, banks, and government contracts. An Oxford review of divestment campaigns found that "almost every divestment campaign…[was] successful in lobbying for restrictive legislation affecting stigmatized firms."[35] More restrictive carbon legislation – or even the expectation thereof – would "increase the uncertainty surrounding the future cash flows of fossil fuel companies," lowering the value of stock.[36]

Would the decision impact global climate change?

The main factor driving contemporary global climate change is the increasing concentration of greenhouse gases in the atmosphere. Of these gases, carbon dioxide is recognized as the main contributor, and human activities release billions of tons of this gas into the atmosphere each year. The EPA states that burning fossil fuels is "the primary human activity affecting the amount and rate of climate change."[37] Thus, fossil fuel divestment campaigns aim to mitigate climate change by targeting the industries producing the highest level of greenhouse gas emissions. The Carbon 200 list identifies the largest public fossil fuel companies, as measured by

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[33] Gelles, D. 13 June 2015. Fossil Fuel Divestment Movement Harnesses the Power of Shame. *The New York Times*. http://www.nytimes.com/2015/06/14/business/energy-environment/fossil-fuel-divestment-movement-harnesses-the-power-of-shame.html

[34] Ansar, A., Caldecott, B., & Tilbury, J. 2013. *Stranded assets and the fossil fuel divestment campaign: what does divestment mean for the valuation of fossil fuel assets?* Oxford: Smith School of Enterprise and the Environment, University of Oxford. http://www.smithschool.ox.ac.uk/research-programmes/stranded-assets/SAP-divestment-report-final.pdf

[35] Ibid.

[36] Ibid.

[37] US EPA, Climate Change Division. 2015. Causes of Climate Change [Overviews & Factsheets,]. http://www3.epa.gov/climatechange/science/causes.html

the carbon dioxide emission potential of their known reserves. The Carbon Underground 2015 report estimates that the reserves of these 200 companies could emit 555 billion tons of carbon dioxide, over four times the amount allocated to them by the IPCC's carbon budget.[38] In order to meet the goal of capping global climate change at 2°C, these and other fossil fuel companies must sacrifice potential profit by leaving 80% of their reserves unburned. The divestment campaign aims to exert political and social pressure to force the fossil fuel industries to do this.

It is possible that heightened stigma and investor risk perception from divestment campaigns will make it more difficult for fossil fuel companies to obtain debt financing for marginal projects.[39] Divestment is also intended to send a moral and political message about the fossil fuel industry's business model, and signal support for more stringent emissions regulations. Some divestment campaigns advocate reallocating divested funds to alternative energy and other socially responsible sectors. Should the global fossil fuel divestment movement succeed in driving financial support and social license away from these industries and toward more environmentally responsible investments, such as renewable energy companies, we can expect to see lower greenhouse gas emissions and further progress towards global sustainability goals.

Would the decision impact sustainability goals?

UMW has integrated sustainability into both its guiding policies and academic programs. The 2009 Strategic Plan states a commitment to social, economic, and environmental sustainability.[40] The University's Sustainability Mission presents sustainability as an essential component of UMW's role in its community:

As an institute of higher learning, it is UMW's responsibility to serve as a leading example to the surrounding community of an entity that models its decisions based on environmentally and socially responsible principles.[41]

The latest draft of the 2015-2020 Strategic Plan places sustainability among its seven primary goals, and states that "both the fiscal and environmental sustainability of all university initiatives" should be considered in decision-making. This plan also mentions the President's Council on Sustainability as a source for recommendations on "reducing the University's carbon footprint, promoting sustainability initiatives, and enhancing the University's visibility and reputation as a 'green' campus."[42]

If UMW were to divest its holdings in the Carbon 200, this decision would demonstrate the university's commitment to operating under the "environmentally and socially responsible

[38] Fossil Free Indexes. The Carbon Underground 2015. 2015. Retrieved from http://fossilfreeindexes.com/research/the-carbon-underground/
[39] Ansar, A., Caldecott, B., & Tilbury, J. 2013.
[40] University of Mary Washington Strategic Plan 2009-2014. http://president.umw.edu/strategic-plan/
[41] UMW Sustainability Mission. http://sustainability.umw.edu/about-2/sustainability-mission/
[42] Mary Washington 2020, revised 9-7-2015, available at http://provost.umw.edu/sptf/

principles" described in its sustainability mission statement. This decision would also place UMW among the first group of American public universities to divest–a notable distinction for a university that seeks to increase its reputation as a "green campus." Beyond divestment, a reallocation of endowment funds towards sustainable and socially responsible investments would serve to further align our investments with our stated values.

Divestment Charge Question #7: Examine higher education institutions that have divested and report how they did it and the impact of their decision, i.e. return on investments.

A growing number of colleges and universities from around the U.S. have committed to divest their foundations from fossil fuels, including Syracuse University, Hampshire College, Pitzer College, and the University of Dayton.[43] Although many of these colleges and universities are private institutions, divestment is possible at public universities, as Chico State proved in 2014 when it became the first such institution to commit to divestment. Other major public universities around the world have since followed Chico State's lead, including Stockholm University and the University of Glasgow. In order to understand what divestment might look like at a public university in the U.S., we investigated the different types of divestment commitments and different paths toward divestment taken by the University of Hawaii, the University of Maine System, the University of California System, and Humboldt State University.

Our findings indicate that there is a range of divestment strategies and outcomes at public universities. The University of Hawaii and University of Maine at Presque Isle have committed to fully divest from fossil fuel companies. The University of Maine and the University of California systems, which include many notable universities, have committed to divesting from coal producing companies. Humboldt State in California has committed to a partial divestment, but has also developed an ambitious social and environmental investment strategy that may lead to further divestment in the future. We further describe each of these commitments below and provide even greater detail in Appendix E. Finally, we should note that many of these universities made very recent decisions on divestment, and it is therefore too soon to learn about the impact - positive or negative - on their endowments.

University of Hawaii

The University of Hawaii has two endowments. The first holds $66 million in funds and is governed by a Board of Regents. The other is a larger endowment, with more than $300 million, which has its own separate governance structure. In May of 2015, the Board of Regents voted to divest the smaller $66 million dollar endowment from all companies producing fossil fuels, defining a divestment threshold of 1% or less. Before this decision was made, the foundation held an estimated 5-7% of shares in fossil fuels. Divestment is scheduled to be completed by May 2019.

One potential obstacle to divestment that decision-makers at the University of Hawaii faced was a potential increase of fees that UBS, the manager of the school's endowment, might charge. Decision-makers were able to work with UBS and found that by delaying full implementation of divestment until 2019, they would be able to keep fees affordable. Another challenge faced by

[43] Fossil Free. 2016. "Divestment Commitments." http://gofossilfree.org/commitments/

decision-makers at the University of Hawaii is the very broad definition of divestment that they used, which calls for an almost complete divestment from all fossil fuel producing corporations. This definition has created some uncertainty for foundation managers as to which companies should be avoided. UMW would not, however, face this challenge by using a more specific definition of investment, as we propose, in terms of the Carbon 200, which is a list compiled by the Fossil Free Indexes of the largest 200 fossil fuel producing companies.

University of Maine System

In early 2015, the University of Maine system, which consists of seven campuses, divested from all direct holdings in coal mining companies to become the first public land grant institution to divest fossil fuel holdings. The divestment process lasted two years, beginning with a campaign led by students who brought their case for fossil fuel divestment to the university board after a year of campaigning. The Divest UMaine campaign was led by a coalition of students, faculty, and alumni from the University of Maine and the University of Southern Maine. The University of Maine Board of Trustees agreed to divestment in January 2015. Of the University of Maine's $589 million total investments, $1.7 million was exposed to coal in its managed investments, pension fund, and operating fund and 30% of this sum was affected by divestment as well as $502,000 of direct investments.[44]

The President of the University of Maine at Augusta said, "From a pragmatic point of view, moving to more sustainable sources of energy is a good financial investment."[45] University of Maine Board Trustee Karl Turner said, "I subscribe to the notion of thinking globally and acting locally and I hope the rest of the board will join me in doing that and voting in the affirmative on this matter."[46]

The University of Maine at Presque Isle (UMPI) divested from the top 200 fossil fuel companies in 2014. UMPI President Linda Schott approached the Foundation board, addressing divestment to ensure consistency between the campus' sustainability efforts and the foundation's investments. The board then decided to divest and directed the University system's investment managers to divest from all fossil fuels in a way that did not significantly impact its rate of return. This process was completed in November 2014.

Humboldt State University

Humboldt State University (HSU) is located in Arcata, California, and is part of the California State University system. The University has a long history of commitment to social and environmental responsibility as well as responsible investment through their Advancement

[44] Respaut, Robin. "University of Maine Board votes to divest from coal". Reuters. January 27th, 2015. http://www.reuters.com/article/2015/01/27/maine-university-coal-idUSL1N0V62N320150127
[45] Lindsay. "University of Maine System Divests from Coal". 350. January 26th, 2015. http://350.org/university-of-maine-system-divests-from-coal-announces-full-divestment-of-umpi-foundation/
[46] Sharon, Susan. "UMaine System Votes to Divest from Coal". MPBN News. January 26th, 2015. http://news.mpbn.net/post/umaine-system-votes-divest-coal

Foundation. As of March 2015, the investment manager of the HSU endowment is RV Kuhns & Associates, Inc. They note that prior to HSU, none of their other clients had divested, but they were excited to take on the challenge.[47] In 2013 a group of students demanded that the Advancement Foundation divest its $28 million endowment from the fossil fuel industry. While the Foundation initially declined to act, with additional public pressure, both groups worked with each other towards the goal of divestment and socially responsible investment. The board was advised by Duncan Robins, a consultant to the Advancement Foundation, to take "bold, responsible action" having "a direct, positive and deliberate effect" on the issue of fossil fuel divestment. Their intent was "to increase Humboldt State University's impact on social and environmental policy and decision-making, while remaining true to the Foundation's fiduciary mandate."[48]

In the end, the University planned on "removing direct investments from virtually all 'concerning sectors' of the financial world," moving towards socially responsible investing.[49] At their meeting in April 2015, it was concluded that HSU had between $2.3 to $4.4 million invested in "concerning sectors" that would be removed with their new plan. The Advancement Foundation created an investment strategy called, Principles of the Humboldt State University Socially and Environmentally Responsible Offset and Mitigation Policy (SEROP).

With this, HSU and other American universities have formed a small group whose focus is to divest mutual funds (rather than direct holdings) from the fossil fuel industry. The Advancement Foundation agreed to take the following steps in October 2015 to comply with its new investment pledge:

- Directing that 10 percent of the overall portfolio, including mutual funds, be shifted to "green funds"—those with no holdings in fossil fuels or other concerning sectors. The goal is to complete this over the next year.
- Reiterating a long-standing policy of having no direct investments in fossil fuels or other concerning sectors.
- Committing to create a new fund that will be invested entirely free of fossil fuels or other concerning sectors. The distributions from this fund will be used for campus-based sustainability projects.
- Directing its Development Committee to explore creating a "Green Challenge" in which every $500,000 donated to the permanent endowment will allow shifting another 10

[47] Humboldt State Online. 27 Mar. 2015. "HSU Helps Lead Push for Fossil-Free, Greener Investing." YouTube. https://www.youtube.com/watch?v=U3s-3rPRuxo
[48] Humboldt State University. 11 Apr. 2014. "Minutes of the Finance Committee" (2014): http://www2.humboldt.edu/hsuaf/docs/financeMinutes041114.pdf
[49] Ibid

percent of the portfolio to green funds. The Foundation's financial advisors estimate this would make up for the slightly lower earnings of the green investments.[50]

The University of California System

The University of California system (UC system) oversees ten campuses and more than 238,000 students. The system as a whole has a fund of about $98 billion, $9 billion of which comes from endowments and other funds including pensions. Some UC institutions (such as UC Berkeley and UCLA) have separate smaller endowments of about $12 billion. The system-wide fund is collectively managed by the UC Regents. In 2012, student interest in fossil fuel divestment increased and the UC Fossil Free club was created. The UC Fossil Free club is a large collection of UC students that have been encouraging the UC system to move away from fossil fuel investments. They have been calling for fossil fuel divestment through protests, petitions, letters, and phone calls. They have been working closely with professors, other staff members, and other student groups, such as the Student Sustainability Collective at UC San Diego. The size and impact of this club has inspired other universities and colleges to take interest in this environmental issue.

The UC institution defines divestment as a tactic for removing unethically invested stocks, bonds or funds from their endowment. The aim is to remove support from companies whose work is detrimental to creating a world that is socially and environmentally just. Due to the increase in student interest and their persistence, the UC Regents created a Task Force on Sustainable Investment. The Task Force noted the importance of divesting funds from fossil fuel companies. It was out of this recommendation that on September 9, 2015 the Chief Investment Office decided to move forward with a $200 million divestment from all direct holdings in coal and oil sand companies. Although the UC system officially has no other direct holdings in coal or oil sand companies, UC Fossil Free wants the UC system to divest fully from the top 200 fossil fuel companies (the Carbon 200). In addition they urged the UC system to sign a policy commitment not to reinvest in those companies and instead to reinvest in sustainable initiatives led and controlled by local communities.

[50] Humboldt State University. 26 Nov. 2014. "Humboldt State University Helps Lead Push for Fossil-Free, Greener Investing." Humboldt State Now. http://now.humboldt.edu/news/humboldt-state-university-helps-lead-push-for-fossil-free-greener-investing/

Statement in Support of Divestment from the PCS

There is no reasonable doubt that greenhouse gas emissions from the burning of fossil fuels are warming the planet. Current rates of warming are unprecedented in the history of human civilization, and they will impact the Earth system upon which we depend in numerous and complex ways.

This reality will increasingly force a difficult question on all of our major social institutions: How will we address, and ultimately solve, the climate crisis? We, the members of UMW President's Council on Sustainability, do not believe that divestment is in itself an answer to this question. But we do believe that it is an important step in the right direction.

Through the research we conducted to produce this report, we found that divesting from the Carbon 200 – or the largest 200 fossil fuel producing companies – would require virtually no change in the UMW investment portfolio, according to Artemis' projection of fossil fuel exposure for June 2016. We therefore determined that the costs of divestment would be minimal at either the 98% or 99% threshold that we recommend. And because our society must soon move away from fossil fuels to renewable forms of energy in order to avoid extremely dangerous rates of warming, as underscored by the recent Paris Agreement on Climate Change, we also believe that such a move makes sense from the perspective of long-term financial planning. Based on our research and deliberations for this report, we also came to agree that UMW could distinguish itself from peer institutions by moving to divest now, and that by so doing UMW could credibly claim to be a leader in sustainability.

Finally, our research has led us to conclude that there is merit to the moral and political arguments for divestment that students at UMW have persistently raised. By advocating for divestment, students ask if it is moral to invest in, and profit from, companies whose business model is not compatible with a stable climate, companies whose primary activities put the future at risk. Perhaps more importantly, students argue that divestment sends a message to the broader public that it is now time to develop and implement the renewable energy systems needed to move away from fossil fuels. By divesting, UMW can respond to students' concerns by committing itself toward the achievement of this historic shift.

Members of the President's Council of Sustainability voted to approve this report on Thursday, March 10, 2016.