

A CHANGING CLIMATE

Universities are facing increasing demands to divest from fossil fuel investments. But is what's good for the planet bad for endowments?



By SANDRA GURVIS

Just a few months into his tenure as president of Unity College in fall 2012, Stephen Mulkey approached the college's conservative Board of Trustees with what seemed like a dicey proposition: Rid Unity's endowment of investments in fossil fuel companies. The small, private liberal arts institution in Maine has a national reputation as being environmentally conscious and was named a leading green college by the *Princeton Review*. "The truth was, we were struggling, not only financially but also in terms of our inward, more parochial focus," recalls Mulkey, a scientist and leading expert in climate change and environmental studies. "We needed a financial plan that not only encouraged growth and expansion but also allowed us to do so in an ethical manner."

Mulkey had serious doubts as to how—or even if—divestment could be accomplished. Helmed by the chief financial officer of a bank, "the board's primary emphasis was on fiduciary responsibility," Mulkey continues. "I thought, there's no way they will agree." But with the backing of students, faculty, and the international environmental group 350.org (and its Fossil Free divestment campaign), the board consented—quickly and unanimously. "The challenge was in convincing them that there was little to no risk with regard to the return on investment and the cost of trades." In November 2012, Unity became one of the first U.S. institutions to initiate a financial divorce from coal, oil, and natural gas companies.

A tiny 600-student college in the heart of rural, largely impoverished Maine seems an improbable divestment pioneer, particularly since it lacked a sizable endowment and alumni fundraising base to help cushion the possible financial fallout. But the grassroots effort that began in 2008 with 350.org's founding by environmental activist and writer Bill McKibben and a handful of students "has simply exploded," observes Ellen Dorsey.

Dorsey, executive director of the Wallace Global Fund, a private foundation in Washington, D.C., has seen burgeoning interest in divestment firsthand. Within months of the January 2014 launch of Divest-Invest Philanthropy—a coalition committed to clean energy investment—more than 650 individuals and 180 institutions such as Wallace Global, the Blumenthal Foundation, and the John Merck Fund pledged to divest themselves of fossil fuels. The movement, Dorsey says, is expanding to all sectors, including educational, faith-based, and health care organizations, as well as local governments. The most notable signatory is the eminent \$860 million-in-assets Rockefeller Brothers Fund, which joined amid much hoopla in September 2014.

Only two dozen institutions in the U.S. and abroad have committed to divest. They include, according to the Fossil Free website, the University of Glasgow (first in the U.K.), San Francisco State University (the first public university and first on the West Coast), Foothill-De Anza Community College (first community college), University of Dayton (first in the Midwest), and Stanford University

SIGN OF THE TIMES: Environmental activists form a human sign on Global Divestment Day in February 2015 in Melbourne, Australia. Students from Swinburne University of Technology, Monash University, and RMIT University, who participated in the event, also launched campaigns that day to get those institutions to purge their endowments of fossil fuel investments.

INVESTMENT AND DIVESTMENT TIPS

Reinvesting in another source of energy is not required. "The point is to have a diversified portfolio and to work toward serving as a counterbalance to the fossil fuel industry," says Joshua Humphreys of Croatan Institute. His white paper *Institutional Pathways to Fossil-Free Investing* offers three divestment options:

1. Freeze new investments and sell off existing holdings in the 200 largest fossil fuel companies. Instruct managers of commingled funds to unwind their positions over the next five years, the average switchover period.

2. Reinvest at least 5 percent of a divested portfolio in fossil-free, sustainable investments that tackle the climate crisis.

3. Divest and then reallocate across "all asset classes in order to manage climate risk and embrace sustainable opportunities."

(arguably among the most prestigious and wealthiest).

The numbers are likely to grow as the activism spreads. In 2011, only one campus saw a campaign by students to get their institution to divest, says Lauren Ressler, director of campus organizing of the Brooklyn, New York-based Responsible Endowments Coalition, which works with other environmental organizations to advise colleges and shareholders on green investing. Today, she says, the figure is more than 400.

Still, many advancement offices are concerned that what is good for the planet may not be so great for their institution's endowment. A study released in February 2015 found that endowments without energy-sector stocks could collectively lose up to \$3 billion a year, while previous studies found divestment to have minimal impact. Much is at stake: In fiscal year 2014, endowments of 832 higher education institutions totaled nearly \$516 billion, and of that, 6 percent, about \$31 billion, is invested in energy and natural resources, according to the National Association of College and University Business Officers.

"If we divested immediately, we would take a hit of about \$485 million over a 10-year period," explains Marylou Ferry, vice president and chief communications officer of Pomona College in California. An analysis by Cambridge Associates, Pomona's financial adviser, found that the "loss of growth in the total endowment, caused mainly by the need to withdraw from the best actively managed [mixed] funds, would result in an estimated \$6.6 million loss in annual spendable income for such things as financial aid, faculty and staff salaries and program support."

RISKY FUTURES

Global warming isn't exactly breaking news. Scientists first issued warnings in the 1950s when they measured the impact of carbon dioxide, which builds up in the atmosphere when fossil fuels are burned for manufacturing and energy. Because it traps heat, carbon dioxide, along with methane and nitrous oxide, causes the earth to warm, creating what's known as the greenhouse effect. The earth's average temperature has risen by 1.4 degrees Fahrenheit over the past century and is projected to elevate another 2 to 11.5 degrees over the next hundred years, according to the U.S. Environmental Protection Agency. This past year, 2014, was

the hottest year on record, reports the National Climatic Data Center, the world's largest archive of weather data.

McKibben, the Schumann Distinguished Scholar in environmental studies at Vermont's Middlebury College and a fellow of the American Academy of Arts and Sciences, has been taking this information to the streets for decades, starting with his 1989 book *The End of Nature*, which was translated into 24 languages. In 2005, he helped organize a national conference at Middlebury on climate change, two years later launching Step It Up, the precursor to 350.org. With 350, he had a catchy hook; the number 350 stands for climate safety. "To preserve a livable planet, scientists tell us we must reduce the amount of [carbon dioxide] in the atmosphere from its current level of 400 parts per million [ppm] to below 350 ppm," according to the 350.org website.

Information from the Carbon Tracker Initiative, a U.K.-based group of financial, legal, and energy experts, also helped stoke the fossil-free fire. Carbon Tracker's list of the top 200 publicly traded coal, oil, and gas companies, ranked by the amount of fossil fuel they have on reserve, provides investors with hard data on what may potentially become stranded assets, excess reserves that have little or no actual market value.

Along with an existing glut of fossil fuels, additional mining techniques such as fracking, which extracts oil or gas by forcing open fissures in the earth; deep-water drilling; and mountaintop coal mining have "created unprecedented constraints on corporate operating cash flows and generated lower returns on investment," says Joshua Humphreys, president and senior fellow of the North Carolina-based Croatan Institute, which conducts social and environmental research. Such relatively new technologies are not only expensive to develop but also "just a patch and hardly a sustainable solution," Humphreys says.

Providing further grist for the divestment mill is the "Filthy Fifteen," a list of the 15 "dirtiest" publicly traded coal companies, based on the amount of coal burned, pollution emitted, ash waste, and safety violations, among many other transgressions. Compiled by WeArePowerShift.org, an online forum that helps student activists organize and mobilize, the list targets companies that are "jeopardizing public health, damaging the environment, and placing an unfair burden on low-income and minority communities."

Spreading information about the effects of fossil



NEXT-GENERATION ACTIVISTS: Colleges have long been the proving ground for promoting social change, as the sign-carrying student indicates during a march on the University of Mary Washington's campus in February 2015 to demand divestment.

fuels only took environmentalists so far. In 2010, McKibben got financial muscle behind his efforts, including a \$1 million-plus grant, and he adopted a new approach. As the environmental leader wrote in his 2013 book *Oil and Honey: The Education of an Unlikely Activist*, "Sometime in the course of the past decade I figured out that I needed to do more than write—if this fight was about power, then we who wanted change had to assemble some."

LEARNED ACTIVISTS WITH 21ST CENTURY TOOLS

Campuses have long been the proving ground for cutting-edge ideas that offend. Many ideals now commonly accepted in the U.S.—desegregation, racial and gender equality, gay rights, the all-volunteer military, the Clean Air Act—had their roots in the campus activism of the 1960s. This activism helped set the stage for the anti-apartheid movement of the 1970s and '80s.

Parallels are often drawn between the abolishment of apartheid and the fossil-free trend since both involve divestiture from established financial interests. As with fossil fuels, "it became clear that [the U.S.] government wasn't going to do anything about segregation in South Africa," says Yong Jung Cho, 350.org campus divestment organizer for the Southwestern region of the country. And it required more than just convincing people they had the right idea; they had to be persuaded to divest. At the University of California, Berkeley, for example, students held rallies against apartheid starting in the spring of 1985, even building a mock shantytown. Over a year later, in June 1986, the University of California Board of Regents approved a three-year plan to pull some

\$2 billion in investments from companies with links to South Africa.

"The decision to divest doesn't just become an economic strategy but also a moral and political one that crosses generational lines," Cho observes. By the time apartheid ended in 1994, most universities had divested themselves from interests in South Africa.

The lessons learned during the anti-apartheid movement—understanding the dynamics behind university trustees and administrators as well as the financial machinations of investing and endowments—helped pave the way for the fossil-free movement. And unlike the Vietnam protest era in which local and national groups operated mostly autonomously, various fossil-free organizations have pooled their efforts.

In addition to grassroots organizing and mass public actions, such as annual and periodic global divestment and mobilization days, 350.org has the advantage of social media and online campaigns. The Internet, Cho says, "helped us to quickly expand beyond the U.S. to places like Paris, Delhi, Sydney, and many others," resulting in a global network active in 188 countries.

IN CAMPAIGN MODE

Reactions to students' calls for fossil fuel divestment have varied widely. Students at California's Humboldt State University "were surprised that I was even willing to explore the idea," says Craig Wruck, vice president for university advancement, recalling a 2012 meeting with divestment activists. Wruck, like many of today's senior-level administrators, came of age during the 1960s. "There's been a generational shift toward more open communication," he adds. As a result, in November 2014, Humboldt State joined the

INVESTMENT AND DIVESTMENT TIPS

"Find a manager who will listen to your needs and concerns and is also open to fossil fuel divestment," says Lauren Ressler of Responsible Endowments Coalition.

"Know your board of trustees. What companies' interests do they represent? If they have a direct involvement or even a tie with fossil fuels, it's likely there will be a conflict of interest," and they will probably resist divestment.



CELEBRATING SUCCESS: Foothill-De Anza Community College students revel in getting the college's foundation to divest.

slowly growing list of universities that have formally committed to divest.

Students are also more apt to work with the system rather than fight against it, thanks to 21st century technology and a global sensibility. In the fall of 2012, a political science class at Foothill-De Anza Community College in California focused its citizen advocacy project on fossil fuel divestment. "The more they learned, the more charged up they got about it," says Robin Latta-Lyssencko, interim executive director of the college's foundation. Eventually, students turned the project into a full-fledged campaign. "They found out what companies we had invested in, presented the facts to the board, and obtained support from the student body." Students today, she adds, "are organized, knowledgeable, and know how to get things done."

But while activists may view divestment as black and white, administrators may see shades of gray. So far, Stanford has agreed to divest only from coal. "We reviewed the third-quarter 2014 [Securities and Exchange Commission] filings and found that Stanford had invested in three new companies involved in oil and fracking," says junior Sophie Harrison, who has been active in Fossil Free since her freshman year.

So Fossil Free Stanford kicked into even higher gear, recruiting more students and initiating a letter from senior faculty requesting full divestment. "We also got the alumni involved," Harrison says, by asking them to write op-eds, sign an online petition, and donate to Fossil Free Stanford's campaign. The group has reached more than 2,000 students, alumni, staff, and faculty. Activists from Stanford and about 15 other universities also organized the Divest Fund, an alternative fossil-free donation portfolio. Gifts designated to these institutions are held in escrow until, Harrison continues, "universities do the right thing."

Humboldt State took things one step further when it divested from what are commonly known as commingled funds, mutual funds that include diversified holdings that investors don't directly choose and may know nothing about. Mutual funds for higher education institutions are often managed by third-party financial firms such as Tidemark, Cambridge Associates, and in Humboldt State's case, RVK.

Wruck says Humboldt State never held direct investments in fossil fuels, but "the fossil fuel sector is much broader and may include not only companies involved in extraction but also those that sell energy, provide equipment, and directly support the industry through various services."

TAKING STOCK IN OTHER OPTIONS

Many institutions—Harvard, Tufts, and Yale universities, Washington University in St. Louis, and even McKibben's home base of Middlebury—declined to

FUELING THE DEBATE: Stanford University credits the students of Fossil Free Stanford for being a catalyst for its 2014 decision to divest from 100 coal companies.



INVESTMENT AND DIVESTMENT TIPS

"Do your due diligence, not just in terms of reasons to divest but also what you should invest in. Look at other institutions and what products are on the market," studying their potential to see if they are a good fit, says Ellen Dorsey of the Wallace Global Fund.

"Take your time. This doesn't need to be done tomorrow, but it should be accomplished within five years." Changes should "make sense and best serve the needs of your institution and portfolio structure."

"Make the commitment, and walk the walk. Investments are the 'black box' of the institution," so it's important to know where the university's ties are. Involve alumni, faculty, and students to encourage the institution to be transparent and accountable for its investments."

directly divest. "The endowment is a resource, not an instrument to impel social or political change," Drew Faust, president of Harvard, wrote in an October 2013 open letter to the community.

Other leaders, like Christina Paxson, president of Brown University, put a gentler spin on things. "Divestiture would convey only a nebulous statement—that coal is harmful—without speaking to the technological and policy actions needed to reduce the harm from coal—actions where Brown can make real and important contributions through teaching and research."

These and many other institutions are taking alternative measures to reduce their carbon footprint, from investing only in green companies that use or develop alternative forms of energy to growing their own food to using solar and wind power on campus. "We believe in and are working toward solving global warming," says Pomona's Ferry. This includes retrofitting buildings to ensure that they meet Leadership in Energy and Environmental Design standards. She expressed concerns that divestment, particularly rapid and unplanned, "would undermine the financial security of our endowment while not making any kind of significant impact" on the environment.

Yet some of the strongest support for divestment is coming from the financial sector, likely in response to the wave of change initiated by campus and other

environmental activists. Cambridge Associates, financial adviser to many of the largest colleges and universities, now offers fossil-free portfolios. And thought leaders are vocal about encouraging a methodical unwinding of fossil fuel interests, even though the process may be lengthy, complicated, and, yes, scary. "Regardless of the size of the endowment or institution, you can prudently reinvest in sustainability, as well as growth industries such as health care and technology, and not lose your shirt in the process," notes the Croatan Institute's Humphreys.

If Unity College is any indication, institutions might even make money or, at worst, break even. Mulkey points to an increased return on investment after Unity's 2012 shift to non-energy sectors. "While the upswing probably had more to do with the stock market than fossil fuel divestment," he says, "it just goes to show that these changes can be accomplished with little or no financial ramifications."

Besides, bigger issues are at stake. "This is the first generation that has the knowledge of how serious climate change is," says Dorsey of the Wallace Global Fund. "And it may be the last generation that can fix it." ■

Sandra Gurvis is the author of 16 books and hundreds of magazine articles on topics ranging from travel to education to medicine and more. She lives in Columbus, Ohio.

COMING TOGETHER: The Fossil Free campaign claims Unity College in Maine as its first victory, but it had an ally in college president Stephen Mulkey.



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