Report on "A Proposal for Divestment"

Submitted to the Board of Trustees, Williams College

by

The Advisory Committee on Shareholder Responsibility

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Faculty: Anand Swamy (Chair) and Karen Merrill; Administrative Staff: Will Dudley, Fred Puddester, and Abigail Wattley (*ex- officio*); Alumni: Laurie Thomsen '79 and Michele Chandler '72; Students: Clare O'Brien '15 and Thomas Luke Guest '17

Summary

1. The ACSR welcomed the divestment proposal and shared its three basic premises: climate change is an urgent issue; consumption of fossil fuels is an important contributor to climate change; and Williams needs to be an ethical and responsible global citizen in relation to this challenge. The entire committee also agreed that while divestment is the focus of its discussion, it can only be one part of the College's response to climate change. Other changes should include investment in "green" technology on and off campus, and behavioral changes that will reduce our consumption of fossil fuels.

2. We noted that the discussion has to balance considerations – the College's obligations as a global citizen, and its need to fund its educational mission. Because it is very difficult to predict the cost of divesting from the fossil fuel industry, we have to acknowledge that the moral considerations behind divestment might also collide with other important elements of the College's mission, such as providing robust financial aid. We also believe that an open, evidence-based, and informed discussion of divestment is of educational value in itself.

3. While agreeing on the urgent need to move away from a fossil-fuel-based economy, the committee was deeply divided on the merits of divestment as a means towards this end. Skeptics pointed, on the one hand, to its intrinsic limitations as a symbolic gesture with few material consequences, and on the other to its potentially high costs, which could hurt the College's core educational mission. Others argued that divestment by influential institutions like Williams will contribute to changing the national conversation about fossil fuels in productive ways. The cost of divestment, they suggested, can be mitigated by following a slow and piecemeal approach, in part by using emerging fossil-fuel-free investment vehicles. They also noted that divestment need not be all or nothing; the College can reduce its exposure to fossil fuels without aiming for full divestment in the short run.

These differing perspectives are argued at some length in the body of this report.

4. The College can sell its directly held investments more easily, and with fewer financial consequences, than it can sell its investments held in commingled funds. As of June 30, 2014, only 3.3 percent of the endowment was invested directly and only 6.0 percent of these direct investments were in the Carbon Underground 200. Thus, directly held investments in Carbon Underground 200 amount to only 0.2 percent of the endowment, or $4.4 million (out of $2.3 billion). Selling these investments would have a negligible impact on total endowment return and could be achieved without having to extricate ourselves from other investments. The cost of divestment from directly held fossil fuel investments would therefore be quite modest and should not be a barrier to taking this course of action.

Given this, there were two points of view within the committee:

(a)Some strongly encourage the trustees to sell this $4.4 million of Carbon Underground 200 stocks right away. They view the sale of these stocks as an important first step, and a clear moral statement by the College. This should be followed by a more measured reduction in fossil fuel stocks currently in commingled funds.

(b) Others believe the benefits of selling these direct investments are likely to be modest. Selling our shares to willing purchasers will not reduce fossil fuel production or consumption. We may achieve some symbolic impact by announcing that Williams will no longer directly invest in the fossil fuel industry. But the resonance of this announcement will be limited by the fact that it does not pertain to the 96.7 percent of the endowment invested indirectly through commingled funds. Divesting from directly held fossil fuel investments is thus a low-risk, low-reward approach to making a difference to global greenhouse gas emissions. But if the modestly positive symbolic impact can be expected to outweigh the small financial cost to the College, then we recommend that the Investment Committee should take this step.

5. The majority of students and faculty who have engaged on the issue believe that the College should divest. However, as noted above, one outstanding concern is that terminating relationships with current fund managers could prove financially costly. To reduce the presence of fossil fuel investments in our endowment, without diminishing returns or increasing risk, we should work in coordination with our current fund managers. The ACSR supports a dialogue between the Williams Investment Office and our fund managers to advance the divestment conversation. Members of the committee who favor divestment would prefer this process to be quick and goal-oriented, with the intention of finding opportunities to reduce fossil fuel exposure. Others, who are not convinced by the case for divestment, see it as potentially contributing to a more informed discussion.

Dialogue between the Investment Office and current managers should address questions such as:

- Which fossil fuel companies does Williams invest in through each fund?
- What are the current and projected valuations of those companies?
- Do the long-term investment plans of the manager involve those fossil fuel companies? Why or why not? If not, what is the timeframe for shifting away from these companies?

Given the rapidly evolving energy market, Williams should not assume that our current managers plan to remain invested in the fossil fuel industry. Active managers with broad mandates could choose to invest elsewhere as they seek the best risk-adjusted returns. By engaging in conversation with our managers, we can gain insight into the long-term financial attractiveness of fossil fuel investments and we can understand how our managers assess the risk and return trade-off of fossil fuels. Based on this information, Williams can start to develop possible divestment strategies in coordination with our current fund managers. Therefore, the ACSR recommends that the Investment Office engage in dialogue with our fund managers, guided by the questions we have listed, and report as appropriate on the findings of these conversations.

5. The ACSR unanimously recommends the College increase its investment in firms that are developing or applying "green" technology.

6. We all favor efforts to "green" the campus, i.e. investment to reduce its carbon footprint. Some would like to clarify that this should not be viewed as an alternative to divestment.

I. Introduction

The reality of climate change and the contribution of fossil fuel use to this process have been known for decades now. There have been various efforts to address this problem ranging from the global (the Kyoto Protocol) to the local (Williams' dorms' "Do it in the Dark" energy competition). But the structural changes within the global political economy required to address this impending catastrophe have not been forthcoming. Frustration on this score has grown, especially among the young who will be more exposed to its consequences. A specific method for addressing this problem, eliminating ownership of shares in fossil fuel companies—divestment—was proposed by Bill McKibben in a now-famous 2012 article in the *Rolling Stone* magazine.[1] This idea has caught the imagination of many, especially in colleges and universities across the U.S. and elsewhere.

Divestment has been a part of the campus conversation for more than two years now. This round of discussion began with a proposal submitted by the Williams Endowment Initiative and Divest Williams on behalf of students, alums, staff, and faculty on December 10, 2014 (Appendix 1). The "ask" is to divest the College's endowment of the stocks of 200 companies, the top 100 with the largest reserves of coal, and the top 100 with the largest reserves of oil and gas. As this report is being written the proposal has 608 signatures from members of the Williams community. On March 4, 2015 the ACSR was presented the results of a student referendum in which 71% of the 62% of students who participated endorsed this proposal (Appendix 2). On the same day we also received a letter from faculty and staff endorsing the divestment proposal. It has now been signed by 248 faculty and staff. Fifty-five percent of faculty are signatories (Appendix 3).

The ACSR welcomed the divestment proposal and shared its three basic premises: climate change is an urgent issue; consumption of fossil-fuels is an important contributor to climate change; and Williams needs to be an ethical and responsible global citizen in relation to this challenge. The entire committee also agreed that while divestment is the focus of its discussion, it can only be one part of the College's response to climate change. Other changes should include investment in "green" technology on and off campus and behavioral changes that will reduce our consumption of fossil fuels.

We also noted that the discussion has to balance other considerations – the college's obligations as a global citizen, and its need to fund its educational mission. Because it is very difficult to predict the cost of divesting from the fossil fuel industry, we acknowledge that the moral considerations behind divestment might also collide with other important elements of the College's mission, such as providing robust financial aid.

The divestment proposal submitted on December 10 encouraged the ACSR to think broadly, beyond its recommendations (p.2). This is what we did. Still, while the committee reached consensus on the important issue of investment in "green" technology, on the core issue at hand -- divestment -- it did not. Skeptics pointed, on the one hand, to its intrinsic limitations as a

[1] "Global Warming's Terrifying New Math", July 19, 2012, http://www.rollingstone.com/politics/news/global-warmings-terrifying-new-math-20120719. Accessed on April 4, 2015.

gesture with few material consequences and on the other to its potentially high costs, which could hurt the College's core educational mission. Supporters of divestment within the committee argued that divestment by influential institutions like Williams will contribute to changing the national conversation about fossil fuels in productive ways. The cost of divestment, they suggested, can be mitigated by following a slow and piecemeal approach, in part by using emerging fossil-fuel-free investment vehicles, perhaps in collaboration with peer institutions. They also noted that divestment need not be all or nothing. The College can reduce its exposure to fossil fuels without aiming for full divestment in the short run.

The next two sections of this report outline the arguments for and against divestment, respectively. These sections reflect contrasting views within the committee. The following two shorter sections pertain to "green" investments on and off-campus. These are the views of the committee as a whole. We conclude with some observations on the nature of the debate that is at the heart of this document.

II. The Case for Divestment

Those who support Williams College's pursuing a divestment strategy have a variety of reasons for this position, but we would like to outline two main reasons here: ethical and institutional. In discussing these reasons, we take as our most basic assumption that while divestment will not have a direct impact on the fossil fuel market in the short term, it is starting a constructive national dialogue about climate change. Given Williams College's national leadership within higher education, we believe that taking this step will provide opportunities for it to chart a truly twenty-first century investment strategy.

Fundamentally, we believe there are overriding ethical reasons for the College both to begin divesting from the fossil fuel industry and to scale up its investments in renewable energy. Our ethical motivations arise in large measure from the stark contrast between the financial interest of the firms holding fossil fuel reserves, which is to extract those reserves out of the ground, and the magnitude of the destruction that such an outcome would produce: as recent research has indicated, burning those reserves would release enough carbon to easily tip the earth's temperature rise over what's considered the "safe" threshold of 2^{0} C.[2] Clearly, a transition to new and much more sustainable energy systems must occur before then; many people who might otherwise disagree on divestment as an institutional strategy agree on this point.

Like all institutions of higher education, Williams currently benefits from and has benefited in the past not only directly from the fossil fuel industry, but also from the larger gains in an economy whose very basis has resided in ready access to fossil fuels. Despite years of reliable science about the direct causal link between fossil fuels and climate change, the U.S. and the world political economies have not succeeded in building into financial decision-making even a fraction of the costs of climate change. Year by year, in other words, we have continued to operate under the assumption that younger and succeeding generations will simply have to carry

[2] Perhaps the most cited recent scientific article on this is Christopher McGlade and Paul Ekins, "The Geographical Distribution of Fossil Fuels Unused when Limiting Global Warming to 2°," *Nature*, 8 January 2015: 187-190.

the catastrophic burdens of climate change, despite it being abundantly clear that the effects of climate change are accelerating and the timeline for mitigating the worst effects is getting shorter. That these burdens will fall unequally across the globe, affecting poor and marginalized people everywhere much more profoundly and rapidly than the affluent is one of the reasons we should view this as perhaps the central ethical problem of our time.

Of course: there are many important causes that demand our attention, and Williams should not divest its endowment funds from a particular market sector without a widespread call from the community and without very considerable reflection, conversation, and study. Some might also argue that there is a slippery slope here: if we divest from fossil fuels, are we obligated to divest from other potentially morally questionable sectors, for instance, tobacco? This is indeed a very serious question, especially given that the trustees' primary role is as fiduciary stewards of the College. We realize further that asking them to make such a dramatic shift in how the endowment is currently managed is a very tall order. However, we would argue that the demand to divest from fossil fuels presents a unique case: it is an issue of nearly difficult-to-grasp global significance; it is one on which the Williams community has specifically and repeatedly asked the College to take action; and it is one on which the College has already taken an official stance. In 2007 the Board of Trustees approved as part of the College's Mission and Purposes that the College's operations would be "environmentally sustainable," and we believe that the endowment represents a core component of the College's financial operations.[3] It is our responsibility to ensure that the College is run in a manner that is consistent with the values that we have named to be at the heart of the institution's mission.

As we think about the impact of divestment on the institution, history is also an important guide. Although there are ways in which the case of South African divestment in the mid-1980s is very different from the proposal before us now, it is worth pausing to think about a few parallels.[4]

The major differences immediately stand out: at the time of South African divestment, colleges and universities did not commingle their funds, and thus it was much easier to identify direct investment in certain South African holdings to divest. Also, South African divestment was attached to other quite concrete political strategies (such as travel boycotts) meant to put pressure on the South African government. One cannot boycott the fossil fuel industry in the United States; its reach is too far and too deep, and thus, just as divesting from fossil fuels raises questions about whether it's merely a symbolic act, so too does the South African example remind us that the protest politics around climate change are, practically speaking, vastly more difficult when the reach of the fossil fuel industry is so enormous, however you look at it.

But we believe this misses what may be the most valuable reasons to think back to the example of South African divestment. By focusing too much on how different *the object* of protests were, we might neglect to notice the similarities in how *the political processes* are playing out institutionally (and we would note, this is true across the country for other colleges and

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[3] "Williams College Mission and Purposes." Approved by the Board of Trustees April 14, 2007.

[4] An interesting, contemporary student perspective on the growth of the anti-apartheid movement -- and one in which Williams is mentioned -- may be found in Robert M. Neer, "The Making of a Movement: Divestiture across the Nation," The Harvard Crimson, June 9, 1983, at http://www.thecrimson.com/article/1983/6/9/the-making-of-a-movement-pbtbhe/. Accessed March 29, 2105.

universities). The divestment campaign of the 1980s did not happen overnight, of course: indeed, one can see that institutions of higher education initially made then many of the same arguments about South African divestment that they're making now against divestment in the fossil fuel industry: "it's merely symbolic"; "any shares we sell will simply be bought up by someone else"; "it's better to try to effect change in South Africa through investment and positive influence on the companies doing business in South Africa." Moreover, we see now a process unfolding that is very similar to that with South African divestment: fierce debate over competing strategies, one that emphasizes divestment, and the other that emphasizes putting pressure on companies to adhere to a set of guiding principles.

In the late 1970s, those principles were the Sullivan Principles, created by General Motors board member Leon Sullivan, who developed a list of requirements that American companies doing business in South Africa should demand for their employees; Sullivan's hope was that this more moderate approach could help bring down apartheid. While scores of companies signed on, and in fact many ended up leaving South Africa entirely, Sullivan himself also soured on the pace of change. In 1987 he reversed course and advocated a strategy of divestment.[5]

The parallel to the Sullivan Principles today might be seen in the development of ESG (Environmental, Social, and Governance) principles that institutional investors are increasingly being asked to outline. While adopting ESG principles would certainly affirm our institutional values -- and we hope that Williams will work to establish a strong ESG framework for its investments -- such action alone, we believe, will not advance national action around climate change in the way that divestment could. Indeed, at Harvard, the university invested heavily in fossil fuels despite signing the United Nations Principles for Responsible Investment (UNPRI), which have helped serve as a framework for many ESG policies. Harvard Faculty for Divestment -- a diverse group across many schools at the university -- has noted that, in fact, despite Harvard's being the first university to sign the PRI, no signs of change have emerged in how the university is communicating directly or indirectly with fossil fuel companies.[6]

As in the case with South African divestment, it is very clear that momentum is building around the divestment movement, and that small colleges are taking the lead.[7] We believe that Williams has the opportunity to be a leader in this instance, as opposed to doing the right thing but a little bit late.

At Williams, the dialogue concerning divestment has dramatically increased recently and has marked the experience of current students. In the recent student referendum, 71% of students (of the 62% who voted) were in favor of divesting the College's endowment from the top 200 fossil fuel companies as specified in the proposal. In addition, a growing number of seniors and alumni have pledged not to donate to the College until we divest, and the creation of a Multi-School Divestment Fund has marked the redirection of some alumni donations to a fund that will only be

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[5] Jennifer Davis, "Business Forum: South Africa: Sullivan Calls for Pullout; Only Sanctions Can Dismantle Apartheid," New York Times, June 7, 1987, at http://www.nytimes.com/1987/06/07/business/business-forum-south-africa-sullivan-calls-for-pullout-only-sanctions-can.html. Accessed April 10, 2015.
[6] http://www.harvardfacultydivest.com/communication/. Accessed April 12, 2015.

[7] See Vyvyan Tenorio, "Yale and Harvard are Losing the Fossil Fuel Divestment Game," *Institutional Investor*, August 15, 2013.

given to Williams once it divests. Since the divestment movement on campus has wide support among current students, being responsive to student concerns about the endowment is important to maintaining support as more and more divestment-supporting students become alumni who could potentially donate—or not—to the College.

Demonstrating the support divestment has among current alumni, Tim Patterson '04 wrote in the Williams Record about divestment at his current institution, Sterling College: "In the two years since Sterling divested, applications for admission are up by half and income derived from fundraising has doubled. Divestment struck a chord with key stakeholders, including prospective students and alumni."[8] With almost 1,000 current students and 248 faculty and staff having asked the College to divest, we believe that divestment has struck a chord in the Williams community as well, and that taking a leadership role by divesting could also engage our alumni donor base.

The financial side of the divestment issue does pose some real challenges. It is true that reducing investment options cannot raise profits, and might hurt them. The issue is: how much will it hurt? This depends partly on how well fossil fuel-stocks will perform in the future, and there is some reason for concern on this point, which we discuss below. But the main financial challenge presented by divestment from fossil fuels arises from the fact that 97% of our endowment is not invested directly, but in commingled funds. A commingled fund has many investors, of which Williams is just one. The Carbon Underground 200 holdings of the fund can be sold only if the other investors and the manager agree. Alternatively, the manager has to be willing to manage Williams' money differently from others, without charging higher fees. If neither of these options is available, by divesting, Williams will either incur greater costs, or lose access to a talented manager. There may also be costs of liquidation.

One response to this problem is to acknowledge powerlessness, and abandon divestment as a strategy altogether, however harmful the product in question. We believe the College can do better than this. We have the following thoughts regarding the commingled funds question.

First, we can sell our direct holdings in the Carbon Underground 200. The commingled funds issue is not relevant here.

Our second suggestion draws on a helpful conversation with Donald Gould, Chair of the Investment Committee of Pitzer College, which decided to divest. Pitzer's endowment is much smaller than that of Williams, but 90% of it was invested in commingled funds. But they found that 80% of their Carbon Underground 200 holdings were in just three locations, and they were able to drop these fossil-fuel holdings at a relatively low cost. If the bulk of Williams's fossil fuel holdings are similarly concentrated within a handful of funds, we could greatly reduce holdings of fossil fuels without fully eliminating them in the short run. To this end, we should hold conversations with our current managers regarding locations of Carbon Underground 200 holdings and their future plans with respect to these holdings. And if dropping some Carbon Underground 200 holdings will be prohibitively costly in the short run, we do not recommend this. Pitzer still has 0.6% of its endowment in Carbon Underground 200 stocks for precisely this reason.

[8] "A Case for Divestment," Tim Patterson, *The Williams Record,* January 21, 2015

In this vein, it also worth noting that some institutions with larger endowments have recently decided to divest from fossil fuels, using some variant of the gradual procedure we have described above. Syracuse University, with an endowment of $1.18 billion, announced that it will "not directly invest in publicly traded companies whose primary business is extraction of fossil fuels" and that the "University will also direct its external investment managers to take every step possible to prohibit investments in these public companies as well."[9] In the U.K., The Guardian Management Group, with an endowment of 800 million pounds, has decided to divest fully, after a two-month consultation with Cambridge Associates, which is also one of Swarthmore's advisers. The plan is to fully divest over a period of approximately five years. [10]

A third approach is to acquire some market power by collaborating with peer institutions. Middlebury, Swarthmore, Pomona, Wellesley et al. are dealing with the same issues. If we were to pool resources, perhaps we could get talented managers to invest fossil-fuel-free. We might also consider working with other institutions that are divesting, such as the Rockefeller Brothers Fund. In other words, perhaps we can commingle our funds not with strangers, but with people who we know share our values.

A fourth approach might be to narrow our target, based on the *direction* in which fossil fuel companies are going. This avoids painting them with a broad brush, and is in the spirit of what Harvard's Professor Naomi Oreskes has called "conditional divestment."[11] Our suggestion is to focus on firms invested in the tar sands, which are a new and very harmful source of fossil fuels. The organization that listed the Carbon Underground 200 firms has now provided a list of the top 20 holders of tar sand reserves.[12] The College could, as a first step, consider divesting holdings of just these twenty companies, which appear to be heading the wrong way.

Fifth, additional options for fossil-fuel-free investment are becoming available, including some in which funds will be commingled. The Williams Endowment Initiative provided some useful information to the ACSR on this topic. Please see Appendix 4, "Response to Query." Also, other institutions that have decided to divest have begun preparing lists of high-performing fossil-fuel-free investment options, and might be willing to share them with Williams. One specific offer to help is from The New School, in New York, which is planning comprehensive divestment, going beyond the Carbon Underground 200.[13]

As noted above, many supporters of divestment raise concerns about future returns from fossil fuel investments. Foremost among these concerns is the "carbon bubble." Much of the valuation of fossil fuel companies is based on carbon reserves in the ground, which far exceed the usable carbon budget, potentially leading to an overvaluation of these companies. In addition policy changes (such as the new cooperation between the US and China), changes in consumer

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[9] http://news.syr.edu/university-formalizes-commitment-to-prohibit-direct-investment-in-coal-fossil-fuels-29595/. Accessed April 3, 2015.

[10] http://www.theguardian.com/environment/2015/apr/01/guardian-media-group-to-divest-its-800m-fund-from-fossil-fuels. Accessed April 3, 2015.

[11] "The Pragmatic Case for Fossil Fuel Divestment to Address Climate Change", June 6, 2014, http://www.nakedcapitalism.com/2014/06/pragmatic-case-fossil-fuel-divestment-address-climate-change.html. Accessed on April 11, 2105.

[12] http://fossilfreeindexes.com/research/tar-sands/. Accessed on March 29, 2015.

[13] This is based on a phone conversation with Brandt Weathers, a member of The New School's equivalent of the ACSR, on April 11, 2015.

behavior, technological advances in energy efficiency and cheaper clean energy, and other factors could lead to these investments becoming "stranded assets."[14]

A great many students, faculty, and alumni have collectively and individually asked the College to take action on climate change in this very specific way: to repudiate a destructive business model. To do so would show our commitment to the values outlined in our mission statement, our responsiveness to community concerns, and our willingness to join with peer institutions in demonstrating environmental leadership. "Green Investment" measures suggested in this report, though constructive, will not serve the same purpose. These are the grounds on which the case for divestment rests. If we want to divest, the mechanics of this surely need to be worked out prudently. We have offered some suggestions and believe that the best (full divestment in the short run) should not be the enemy of the good (reduced exposure to the Carbon Underground 200). We are confident that if the Board of Trustees is persuaded by the ethical and institutional case for divestment, you can find a way to address the financial issues and progress towards this important goal.

As we have noted, some on the ACSR do not view divestment as a productive strategy. They present their views in the next section. Because this section, like the one just completed, is meant to be self-contained (i.e. comprehensible on its own) there is some repetition, for which we beg the reader's indulgence.

III. The Case Against Divestment

Climate change is a real threat and Williams should take action to address this significant challenge. The question is what action will have the greatest impact. Some have suggested divestment from fossil fuel companies. But over the past 18 months, many of our peer schools have decided against divestment. Pomona, Swarthmore, Harvard and Amherst -- to name a few institutions – have issued policy statements against divestment and the case is compelling.

Divestment from fossil fuel companies – by colleges and universities -- is largely a symbolic act. Supporters of divestment acknowledge this action is unlikely to affect the policies of these companies and the primary goal of divestment is to raise awareness. The hope is this increased awareness will change the behavior of these companies and galvanize public opinion in a way that would cause elected officials to take action on climate change.

But it is unclear that divestment would have that effect. The combined investment by all college and university endowments represents an extremely small fraction of the total capitalization of the top 200 fossil fuel companies. And the majority of these companies are not raising funds through new stock offerings, so it is unlikely divestment will have any effect on the actions of those companies to reduce greenhouse gas production.

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[14] "Unburnable Carbon: Are the world's financial markets carrying a carbon bubble?" Report by the Carbon Tracker Initiative, 2012. http://www.carbontracker.org/wp-content/uploads/2014/09/Unburnable-Carbon-Full-rev2-1.pdf. Accessed on April 11, 2015.

In fact, some have argued divestment is a distraction from the real work on the issue of climate change. It may do more harm than good, by making people feel as if they have made a positive difference and thus letting them off the hook from making the difficult behavioral changes that are necessary to reduce fossil fuel consumption. As David Oxtoby, President of Pomona College, recently noted, "Feel-good measures that have no effect on actual green-gas production are a diversion from the critical actions we must take before it is too late."[15]

And on the point of divestment as a moral stand to mobilize public opinion, we must acknowledge that as an institution it is inconsistent to call for a divestment of fossil fuel companies on the grounds that these companies are immoral while simultaneously using their products every day. The right thing to do is to reduce the use of the products to the greatest possible extent.

It is clear, however, that divestment would have a negative impact on the College's finances. The Williams endowment is principally invested in commingled funds. And while the exposure to fossil fuel companies is modest, to comply with a divestment mandate the vast majority of the endowment would have to be liquidated and reinvested, at a significant cost. There are also costs associated with lower returns on a fossil-fuel-free portfolio. These costs are detailed below.

Given the College's reliance on the endowment, the financial consequences of divestment will negatively impact the other priorities of the college including, but not limited to, our outstanding faculty, generous financial aid program and our dynamic curriculum. In addition to the immediate financial impact of divestment, the College needs to be thoughtful about the long-term implications. If we reduce the value of the endowment – which has been built up over 200 years – we are reducing the resources available for generations of faculty and students.

The College can take a leadership role on this issue by strong actions on campus that do not include immediate divestment. We can set aggressive goals to reduce greenhouse gas emissions on campus. We can invest in energy conservation measures in our existing buildings. We can construct new buildings with state-of-the-art systems that minimize their carbon footprint. And, we can begin a dialog with the fund managers -- with whom we invest the endowment – to start to develop divestment strategies working with those managers.

An Estimate of the Potential Cost of Divestment

The Investment Pool's exposure to the top 200 fossil fuel stocks included on the Carbon Underground's list was 2.5% across the total portfolio as of June 30, 2014. There are two significant costs to consider to eliminate this exposure and to ensure no further exposure in the future. The first cost is that of the liquidation of the current portfolio to remove fossil fuel exposure and reinvest the portfolio in fossil fuel free funds. The second is the cost to the College attributable to a lower expected return due to a new investment approach.

The Investment Pool, a $2.3 billion portfolio as of June 30, 2014, is invested across ten asset classes, including traditional equity, bonds, hedge funds, and private equity. It is through the careful selection of investment managers and funds (which are often difficult to access), as well

[15] "Divestiture is Nothing But a Distraction", *The Chronicle of Higher Education*, September 15, 2014, http://chronicle.com/article/Divestiture-Is-Nothing-but-a/148789. Accessed on April 11, 2105.

as the use of alternative investment options, that the endowment has achieved a level of return necessary to support the College and grow the Investment Pool. On an annual basis, 5% of the Investment Pool is spent to support approximately 50% of the College's operating budget. Over the last five years as of June 30, 2014, the Investment Pool has generated a return of 13.4%, outperforming the benchmark return by 2.5% annually over that same time period. The outperformance that the Investment Pool has generated above its benchmark return is primarily attributable to manager selection.

In order to fully comply with a fossil fuel free divestment mandate, the portfolio as it stands today would need to be liquidated and reinvested. Many of the funds that are currently used are "commingled" in nature, meaning that the College cannot set the investment guidelines or select which stocks may or may not be held. And while the exposure to fossil fuel is modest, in order to assure full compliance with a divestment mandate, the current portfolio would need to be reinvested. Therefore, the first cost to divestment is the liquidation of the Investment Pool. The cost to liquidate the portfolio over the course of the next year is estimated to be $76 million. This cost was calculated assuming an orderly liquidation of the portfolio, and is not the cost associated with a fire sale of assets (which would be greater).

The second cost to divestment is the cost associated with lower financial returns, a cost with significant implications. Over the last 10-years the Investment Pool has achieved a return of 9.02% as of June 30, 2014. We compared this performance to that of a fossil fuel free portfolio. Since the set of actively managed fossil-fuel-free investment vehicles available over the last ten years is limited, we have used aggregate market indices, stripped of their fossil-fuel content. In particular, we consider an 80%/20% stock/bond portfolio invested in a fossil-fuel-free S&P 500 index and a fossil-fuel-free Barclays Aggregate bond index. This fossil-fuel-free portfolio would have returned 7.58% over the same ten year time period, 1.44% percent less per year on an annualized basis. Translating this to dollars over the last ten years, this would have been a cost of over $380 million over ten years, or nearly $39 million/year. The calculation of these costs includes the difference in the final market value of these two portfolios, plus the difference in spending that the College would have had available for budgetary support.

The reallocation of the portfolio entirely to fossil fuel free funds could potentially reduce the expected performance of the Investment Pool going forward. While there are new products being developed for fossil fuel free investing, the universe of options remains limited and the track records for these funds are often short. BlackRock, a major index fund provider, is an example of a firm beginning to develop investment products in this space. However, the Investment Pool relies on the ability to allocate to a global opportunity set of investment managers to generate long term outperformance for the College. This "tool kit" for adding value (i.e. manager selection) would be limited should the universe of funds under consideration to be diminished, likely contributing to a lower expected return going forward. This is reflected in the calculation of cost.

Having outlined the case against divestment, we will now turn (briefly) to two related subjects on which members of the ACSR are in agreement.

IV. Reducing Our Carbon Footprint: On Campus Green Investments

Reducing our own campus carbon footprint is the most direct way we can contribute to the reduction of global carbon emissions. Williams formally recognized the importance of this effort in 2007, when the Board of Trustees approved the goal of reducing College emissions to 10% below 1990 levels by 2020. We are now more than 95% of the way to achieving this target, well ahead of schedule. Our progress has resulted from a combination of energy conservation (investing in making existing facilities more efficient), fuel switching (from oil to gas), green building (ensuring that new construction does not increase emissions), and the addition of some solar power to our electricity portfolio.

As we approach our current emission target, we should not only anticipate celebrating the achievement but also ask ourselves: what should be our next carbon reduction goal? The Campus Environmental Advisory Committee (CEAC) is currently focused on this very question and working to develop a recommendation for the College administration and the Board of Trustees. The ACSR supports this CEAC initiative and urges the College to set an appropriate and aspirational target for additional reduction of our campus carbon footprint.

Achieving our next emission reduction goal will require executing a multi-pronged strategy over the coming years:

1. Energy conservation — there is much that remains to be done to improve the energy efficiency of our existing building stock. The College has hired Greener U, a consultant that specializes in identifying and prioritizing such opportunities, to help us develop an energy conservation plan.

2. 100% renewable electricity — by participating in a wind project of sufficient scale, the College could eliminate its reliance on fossil fuels for any of our electricity needs.

3. Carbon offsets — because heating, cooling, and transportation will continue to consume fossil fuels, it may be necessary to offset some of the associated emissions by purchasing carbon reduction credits in the market.

4. Green building — whenever we renovate, expand, or replace existing facilities with new space, we must make energy efficiency a high priority and take every opportunity to reduce our total emissions.

Each of these strategies will require investment, although in some cases up-front project costs will be fully recovered through lower energy expenses over time. Success will depend upon our being willing to expend financial resources, potentially including draws upon the endowment, in order to reduce our carbon footprint relatively rapidly without compromising the existing College budget. This would be a powerful way to put our generous endowed resources to work in the service of ensuring that Williams makes an important institutional contribution to the task of slowing global warming.

V. Green Investment Off-Campus

The case for green investments is straightforward. If the world is to transition to planet-friendly sources of energy, the renewable-energy industry needs consumers and investors. Williams' role as the former has been described in the previous section. As investors, our motives can be two-fold. On the one hand, we are looking for good returns. Green investing may make financial sense. If this is the case, we can ignore the positive "externality," the good that accrues not to us directly, but to society more broadly. But we do care about the positive externality. Indeed, to ignore it is to reproduce the purely self-considering behavior that is at the heart of the climate change problem. So, in addition to the financial motive, there are good moral reasons for green investment. Still, in the green investment strategy (as in divestment), we need to weigh two considerations: financial returns, which help the college's core educational mission, and our role as a global citizen in the context of the climate change crisis.

We will not presume to direct the college towards specific investments. These choices need to be made by investment professionals. Still, we will make two points.

First, our peer institutions are going in this direction. The president of Middlebury College, Dr. Ronald D. Liebowitz, stated in 2013 that Middlebury "will work to develop a set of stronger ESG (Environment, Social, and Governance) principles that we can apply to our investment portfolio." Moreover, he wrote, Middlebury will apply ESG guidelines "to help monitor investments and operations at our own campus in Vermont." Finally, Middlebury proposes to "increase significantly the amount of the endowment directed toward ESG investments, including those focused on clean energy, green building projects, and other efforts to reduce greenhouse gas emissions and benefit the environment." [16]

Our proposed green investment initiative, involving proactive investment in alternative energy companies and renewable energy solutions, also has precedents in the plans of institutions that have pursued such policies *in conjunction with divestment*. Hampshire College is one of these.[17]

Second, it appears that profitable green investment opportunities are emerging. The 350.org, Green Century Funds and Trillium Asset Management note seven key opportunities for reinvestment: "energy efficiency, power generation, storage and distribution, transportation, sustainable agriculture, water and sustainable design."[18]

More specifically, reinvestment is often directed towards funds that are screened to exclude fossil fuel companies, and many are also screened in accordance with ESG standards. Examples include: the Portfolio 21 Global Equity Fund and the Green Century Balanced Fund. For instance, PaxWorld Global Environmental Markets Fund excludes fossil fuels and also invests in

[16] http://www.middlebury.edu/newsroom/archive/524638/node/459563. A useful update on the progress made since 2013 is available here: http://www.middlebury.edu/about/president/531597/630661. Accessed April 11, 2015.
[17] http://www.bloomberg.com/news/2013-06-05/fossil-fuel-divestment-difficult-for-schools-yet-alternatives-exist.html. Accessed on April 11, 2015.
[18] "Extracting Fossil Fuels from Your Portfolio: A Guide to Personal Divestment and Reinvestment", Trillium News: December 4, 2014, http://www.trilliuminvest.com/extracting-fossil-fuels-from-your-portfolio-a-guide-to-personal-divestment-and-reinvestment/. Accessed on April 11, 2015.

"clean energy and energy efficiency, pollution control, waste management, and water infrastructure."[19]

Also cited is the Ceres organization's Investor Network on Climate Risk (INCR): "a network of 100 institutional investors representing more than $13 trillion in assets committed to addressing the risks and seizing the opportunities resulting from climate change and other sustainability challenges."[20] Finally, even quick Google searches yield potential investment opportunities, though we again stress that we are not recommending specific investments.[21]

Our concerns regarding the relationship between the profitability of our investments and their social impact do not of course pertain solely to climate change. A general framework for thinking about ESG (Environmental, Social, and Governance issues) has been proposed in the United Nations Principles for Responsible Investment (UNPRI). As it notes, "unprecedented environmental and social pressures driven by food, water and energy security, access to natural resources, climate change, human rights, supply chain labour standards and ageing populations have become material issues for business and the corporate world."[22] A few academic institutions considerably larger than Williams (Harvard, University of California) and many pension funds, among others, are signatories to UNPRI. We don't see a case for Williams to formally adopt UNPRI, but we could use its guidelines in structuring conversations with our managers on these topics.

All of us are enthusiastic about "Green Investment" along the lines described in this and the previous section. But is this enough in itself? This brings us back to our central issue: divestment. We conclude with some general observations on this point.

VI. Conclusion

Scores of institutions and municipalities have successfully used divestment in the past, most notably to protest apartheid in South Africa. It has re-emerged now in a more complex setting, where the target is closer at hand. Indeed fossil fuels are ubiquitous in our daily lives. For some this weakens the rationale for divestment. In one way or another, the fossil fuel economy implicates all of us. So it can seem counter-intuitive or pointless to target the firms that provide this energy source on which we all rely every day and simply better to act constructively to develop alternative sources of energy. But supporters of divestment view the fossil fuel industry, with its destructive business model and enormous political and financial power, as obstructing the transition to cleaner forms of energy. This makes divestment all the more meaningful as a means to challenge the fossil-fuel industry in politics and public discussion. This disagreement regarding the potential impact of divestment is reflected in much of this report.

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[19] "Green America's Guide to Fossil-Fuel Divestment", http://www.greenamerica.org/PDF/FossilFree.pdf. Accessed on April 11, 2015.

[20] www.ceres.org . Accessed on April 11, 2105.

[21] For instance: http://www.forbes.com/sites/tomkonrad/2013/12/17/the-pros-pick-three-green-income-stocks-for-2013/ ; http://www.theguardian.com/money/2014/oct/11/triodos-renewable-energy; http://www.theguardian.com/environment/2014/jun/24/green-investment-bank-launch-offshore-wind-farms-fund.

[22] http://www.unpri.org/introducing-responsible-investment/. Accessed on April 2, 2015.

Still, even as we debate divestment, we might remember that we do agree on some basic matters. There are few, if any, in the Williams community who question the fact of climate change or the urgent need to transition to cleaner forms of energy. We have common goals; our disagreements are about strategy.