



Because it is unconscionable to pay for our education with investments that will condemn the planet to climate disaster, we make the following demands of the Board of Trustees: *immediately freeze all new investments in fossil fuel companies by putting a negative screen in the endowment, and commit to divest current holdings in fossil fuels within the next five years.*

The goal of the fossil fuel divestment movement is not to financially bankrupt the fossil fuel industry, but instead to morally and politically bankrupt this industry in order to create a political context for meaningful climate action. This document provides a very brief overview of Fossil Free AU's responses to the questions the Board asked the campus community in their May 2013 memorandum. We hope that we will have an opportunity to present our full responses to the Board in the near future.

***What is the risk adjusted difference in return expectations associated with any specific portfolio recommendation?***

Impax Asset Management, an award winning investment firm that manages \$3.6 billion globally for institutional and high net worth investors, examined in a seven-year period what the MSCI World Index would look like in four different fossil free portfolios. The results not only show similar annualized volatility and tracking error, but also an approximate increase of 0.5 percent in annualized returns. The study found that replacing fossil fuel stocks of the MSCI World Index with an actively managed allocation of stocks selected from a wide range of resource optimization and environmental investment opportunities resulted in the highest annual return (2.3%) with minimal risk. All four alternative portfolios had similar results.<sup>1</sup>

***Should the university's investments be driven by socially responsible considerations, even if it means a loss of investment returns that fund other important university priorities?***

In its bylaws, the AU Finance and Investment Committee has listed as one of its roles to consider "social issues related to investment." Studies from Phillips, Hager & North Investment Management, Impax Asset Management and the Aperio Group demonstrate that a socially responsible portfolio can perform on par and in some historical instances, better, than a standard portfolio.<sup>2 3</sup> This question presents a false dichotomy between socially responsible considerations and investment returns.

Furthermore, there is a growing consensus in the investment community that fossil fuel investments are financially irresponsible. Recent public reports from The Economist, Bevis Longstreth (former Security and Exchange commissioner) and Tom Steyer (founder of Farallon Capital Management) reflect this position.<sup>45</sup> Given the global carbon budget of 565 gigatons to remain within a 2 degree warming target, the 80% of reserves currently held by publicly traded fossil fuel companies are unburnable. The Carbon Tracker Initiative, working in

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<sup>1</sup> "Beyond Fossil Fuels: The Case for Fossil Fuel Divestment." Impax Asset Management, 2013.

<sup>2</sup> Phillips, Hager, & North Investment Management, 2007

<sup>3</sup> "Do the Investment Math: Building a Carbon-Free Portfolio." Aperio Group 2013.

<sup>4</sup> "Unburnable Fuel." The Economist. 2013.

<sup>5</sup> "The Financial Case for Divestment of Fossil Fuel Companies by Endowment Fiduciaries." Bevis Longstreth. The Huffington Post. 2013.

partnership with the London School of Economics, refers to these as “stranded assets”.<sup>6</sup> The top 200 fossil fuel companies targeted by the divestment campaign are therefore vastly overvalued and continued investment in them is financially irresponsible.

***Whose values govern the decision to divest or screen investments when there are multiple perspectives at AU on many important issues?***

The values that govern the University’s decision to divest should be the values of the university. American University is known for its politically and socially engaged students, faculty, staff, and graduates, who are recognized as the most politically active in the nation. As a University engaging in sustainability initiatives on campus, we have already demonstrated our support for meaningful climate action. In addition, the campus community, represented by the Undergraduate Senate, Faculty Senate, and a student referendum, has overwhelmingly supported full divestment.

As a Methodist university, our institution has certain values to uphold. According to the resolutions of the United Methodist Church in 2008, “The United Methodist Church will strive for a global sense of community to help achieve social, economic, and ecological justice for all of creation...From extraction to end-use, the life cycle of energy produced from fossil fuels has led to severe strain on both the local and global environments”. In addition, “The United Methodist Church believes that social justice and social usefulness must be given consideration together with financial security and financial yield in the investment of funds by individuals, churches, agencies, and institutions in the United Methodist family”.<sup>7</sup>

Finally, according to AU’s Transformational Goal #7 (“To act on our values through social responsibility and service”) states that, “Life at the university will be marked by rich opportunities for service, an active pursuit of sustainability, a steadfast sense of ethics, and a vigorous commitment to the city and people of Washington, D.C.”<sup>8</sup>

***What is our obligation to prior donors to our endowment who may have a different or contrary view?***

According to administrators, the views of prior donors were not taken into account in the implementation of previous negative screens, and thus should not be a concern in this case. Prior donors have trusted the university and its Board to utilize their donations in a way that ensures AU exists to carry out its educational mission in perpetuity. It is difficult to speculate their individual motivations for donating; there is no apparent mechanism to survey the views of donors, and donors of the past 120 years could not have imagined the financial system or climate crisis that exist today.

***How will the board reinforce the university’s commitment to sustainability, or to other important values that may compete for investment scrutiny, while complying with its statutory requirements and fiduciary responsibilities as the university’s governing body?***

AU has already made forward thinking commitments to sustainability, and a divestment strategy would be a natural complement to these commitments. The fiduciary responsibilities of the Board do not preclude a fossil fuel divestment strategy. As discussed above, socially responsible investments can comply with fiduciary responsibilities while reflecting the values of the university. To say otherwise presents a false dichotomy between the legal obligations of the board to the university and the university’s own commitment to sustainability and social

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<sup>6</sup> “Unburnable Carbon 2013: Wasted Capital and Stranded Assets.” Carbon Tracker and Grantham Research Institute, London School of Economics. 2013.

<sup>7</sup> “Book of Resolutions”. The people of the United Methodist Church. 2008.

<sup>8</sup> “Strategic Plan”. American University, 2008. <https://www.american.edu/strategicplan/upload/AU-Strategic-Plan-adopted-Nov-2008.pdf>

responsibility. As previously mentioned, continued investment in fossil fuel companies could be construed as a violation of fiduciary responsibilities given the potential for stranded assets.

***What is the most effective means of reinforcing our values? Should investments be withheld from some funds, or should some investments be affirmatively made in SRI funds?***

Divestment is one of many effective means of reinforcing our values; however, other efforts towards sustainability and social justice are diminished by continued investments in fossil fuels. At \$500 million, AU's endowment is one of the best tools we have to reinforce our values. Withholding investments from certain funds and making positive investments in others are not mutually exclusive strategies. In fact, the most effective strategy would be to divest from fossil fuel companies while simultaneously making sustainable and socially responsible investments, as doing one without the other would not truly reflect AU's values nor help to achieve societal transformation.

***How can investments for a modest portfolio, managed primarily through commingled funds to improve access to investment opportunities, avoid specific companies?***

It is our understanding that if the University made this request of Cambridge or another investment management firm, it could be accomplished over a reasonable timeframe. As the members of this campaign are not financial management experts and do not have access to detailed information about the portfolio, we cannot develop a specific strategy for divestment. We can, however, work with faculty, staff, and outsider investment firms to create a body of knowledge on fossil fuel divestment strategies. As more and more institutions make the decision to divest, this body of knowledge will expand significantly, as will the market for socially responsible and "fossil-free" portfolios. Ultimately, the process of divestment will be the responsibility of the investment management firm.

***How should the board treat investment in an energy company whose business is comprised of both fossil fuels and some of the largest developments in alternative energies?***

The top 200 publicly traded fossil fuel companies are just that - fossil fuel companies.<sup>9</sup> Based on our research, none of these companies have invested significant portions (>10%) of their assets into renewable technologies. The fossil fuel divestment movement is not an instance where communities takes issue with a small aspect of a corporation; rather the fundamental business model of the fossil fuel industry requires burning an unacceptable amount of carbon and therefore must be changed. In the current socio-political climate, these companies have no incentive to change this business model. Without significant pressure, the minuscule investments in renewable technologies currently made by fossil fuel companies will remain insignificant to address the massive problem of climate change. It is the goal of the international divestment movement to create this pressure.

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<sup>9</sup> Carbon Tracker Initiative, "Carbon Bubble" 2012.

<http://www.carbontracker.org/wp-content/uploads/downloads/2012/08/Unburnable-Carbon-Full1.pdf>