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Colleges Warily Ponder Students' Calls for Divestment in Fossil Fuels

Protesters at Ithaca College, in New York, called on board members to support divestment in October.

By Alina Mogilyanskaya

When winter break draws to a close and students return to their campuses, many will pick up where they left off in the battle against climate change—a struggle now often waged in their colleges' administration buildings.

In what has become a nationwide movement in only a few months, student groups at almost 200 colleges and universities are calling on boards of trustees to divest their colleges' holdings in large fossil-fuel companies. The students want colleges to take an ethical stand against the fossil-fuel industry's contribution to climate change by committing to divest, and getting it done fast—within five years.

Most college administrations have responded warily, if not dismissively, reviving a debate about the role of endowments that came to the fore most prominently with the South Africa divestment campaigns of the 1980s.
Both advocates and skeptics of divestment recognize that whether or not colleges sell off their stakes in fossil fuels will largely depend on political will. But the two sides diverge in their conceptions of what role, if any, colleges should try to play in mitigating climate change, and of how that role can be made compatible with their endowments' traditional charge of earning money to further the educational missions of the institutions.

Students at Barnard College and Columbia U. met in November to kick off their divestment campaign.

"It's not an easy yes or no; it's complicated," says Kenneth E. Redd, director of research and policy analysis at the National Association of College and University Business Officers. "Mechanically, yes, it's possible for institutions to divest themselves from energy holdings that are harmful to the environment. But the danger that they run into is that they will have lower returns than they otherwise would have."

Of the estimated $400-billion in assets held by higher-education institutions, some $20-billion is invested in energy and natural resources that include oil, gas, and coal, says Mr. Redd, who helps oversee the annual NACUBO-Commonfund Study of Endowments. According to the most recent study, these investments yielded an average return of 24 percent in the 2011 fiscal year, compared with an overall return for colleges of 19 percent.

Investment managers may be hard-pressed to find equally or more profitable investment options, and administrators may be even less inclined to want to do so in today's economic climate and difficult market conditions. "If you look at the investment markets right now, there aren't that many places where you can put a lot of money that will promise you pretty good returns," says John S. Griswold, executive director of the Commonfund Institute.

While the NACUBO-Commonfund study for 2011 showed signs that endowments were doing better in their postcrisis recovery, the most current, and soon to be published, data show that they've had "a pretty flat year," Mr. Griswold says.

**Policies for Change**

In early November, Unity College, in Maine, became the first to formalize a policy to divest from fossil fuels.
"The major goal here is not to move the financial investment away from fossil fuels as much as it is to send a very strong signal that conservative investors have agreed that this is not an ethical investment," says Stephen Mulkey, Unity's president.

The college plans to bias its selection of funds away from those that might contain fossil fuels, and thereby to limit its investments in the sector to less than 1 percent of its $13.6-million endowment. Most of its investments are in exchange-traded funds, and the remainder are in bonds, with fossil-fuel holdings accounting for some 3 percent to 5 percent of the portfolio.

"It's very clear that we can still maintain significant, meaningful return on investment," says Mr. Mulkey. "And even if we did suffer a little bit, it would be acceptable."

While its investment policy is not officially a "divestment" from fossil fuels, Hampshire College, a famously progressive institution and the first college to divest from South Africa in 1977, adopted a similar stance in December 2011. It established a policy on environmental, social, and corporate governance—or ESG—investing that purposefully directs the college's endowment managers to make socially responsible and sustainable investments. The policy will effectively rid the college's portfolio of fossil-fuel holdings, according to administrators.

Jonathan Lash, Hampshire's president, cites moving the $32-million endowment away from hedge funds as a key investment, not only because the funds are often invested in fossil fuels but because they lack openness and limit the college's ability to understand and control its holdings.

"There's a trade-off," whereby limiting the choice of investments may limit potential returns, Mr. Lash says. While the policy is too new to adequately measure any significant impact on the endowment, he says, the college has "made a fundamental choice that our investment policies are linked to our educational policies."

Although college endowments were pioneers of ESG investing in the 1970s, and while the prevalence of such investing has grown over all in recent years, many observe that endowments are now lagging behind other investors in the practice. Of the institutions surveyed in the NACUBO-Commonfund study in 2011, 18 percent reported applying some form of ESG-investing criteria to their portfolios, down from 19 percent that did some socially responsible investing in 2010 and 21 percent in 2009.

"It hasn't really grown much, partly because I don't think they've felt the pressure to do it," says Mr. Griswold.

Conflicts of Interest

Achieving widespread divestment from fossil fuels among colleges may prove even more difficult for advocates today than in the heyday of the South Africa divestment movement, or during the more recent Sudan and tobacco divestment campaigns. Since the "Yale model" of institutional investing, which favors a diverse portfolio and illiquid assets, took off in the 1990s, the structures of endowments have become more complex and their holdings more obscured.
"If you're flying in a plane 30,000 feet above the ground, you can tell generally what's going on down below, but you really have no idea of exactly what's going on," says Mark Orlowski, executive director of the Sustainable Endowments Institute. "And that's very much likewise with these endowments."

The debate also raises concerns about the potential presence of vested interests on college boards of trustees and their roles in shaping the response to students' call for divestment. While the data on such interests remains fragmented, a 2010 investigation by The Chronicle of 618 private colleges found that one in four have financial ties with trustee-affiliated companies, which include investment firms, hedge funds, and other financial institutions.

A 2012 report by the Tellus Institute, a nonprofit research and policy organization, considered a narrower sample, of the 20 wealthiest colleges in Massachusetts, and found that 70 percent of them had at least one trustee affiliated with a firm doing business with the college, and that the greatest number of such trustees work in financial services. While having well-connected trustees has often proved to be a boon for colleges and their endowments, the Tellus Institute has found evidence, "at a statistically significant level, that there are both disclosed and undisclosed conflicts of interest related to those kinds of investments," says Joshua Humphreys, the report's author.

These kinds of relationships may add another level of complexity to the prospect of untangling certain investments, particularly those with investment firms that have a stake in fossil-fuel companies. They might also create an additional barrier to adopting ESG investments, which are often viewed as less likely to be profitable than traditional ones.

The widely held view that applying ESG criteria to endowments is difficult or financially disadvantageous is "a little bit of a myth and a misperception," says Mr. Humphreys, who has long been tracking ESG investing.

"It's an obstacle because there are a lot of people who have a direct interest in wanting to remain invested in other things," he says.