SKIDMORE COLLEGE
FINAL REPORT OF THE TASK FORCE ON DIVESTMENT

April 2015

INTRODUCTION

In late 2013, the Skidmore College Board of Trustees authorized the administration to create a Task Force on Divestment (TFD) to undertake a study and present recommendations on a proposal that the College divest its holdings of investments related to fossil fuels. An initial proposal to that effect had been made by a student petition to the Board of Trustees and subsequently endorsed by the Student Government Association (SGA). The charge to the TFD, in the words of President Philip Glotzbach, was to "consider the various complexities and implications relating to the call for divestment" of the college's investments in fossil fuel companies. After receiving the endorsement of the Institutional Policy and Planning Committee (IPPC), the TFD was duly constituted (by April 2014) through processes of willingness-to-serve and appointments, with representation from faculty (3), staff (3), student body (3), and the Board of Trustees (1). The following is the composition of the TFD:

Faculty
James Kennelly, Professor of Management and Business (Chair)
Pat Oles, Associate Professor of Social Work
Robert Turner, Associate Professor of Government

Staff
Kyle Bernard, Controller, Director of Financial Services and Associate Treasurer
Karen Kellogg, Associate Dean of the Faculty for Infrastructure, Sustainability and Civic Engagement (Vice-Chair)
Levi Rogers, Sustainability Coordinator

Students
Jessica Aleman '15
Brian Fredericks '16
Madeleine Welsch '17

Trustee
Charles B. Buchanan

The TFD was charged to accomplish its work in two phases:

- *Phase 1* was to encompass an examination of the *meaning* of the divestment request and an understanding of what the call for divestment was intended to accomplish in advancing the goals of sustainability. It was also to include research on how other institutions (particularly our comparison group) have handled this issue, with the goal of learning what we can from their experiences.

- *Phase 2* was to include an analysis of the likely effect of divestment upon our endowment, operating budget, financial aid, etc., and to produce a non-binding recommendation to the Administration and Trustees regarding the divestment proposal itself.

The Task Force met on an approximately bi-weekly basis during the 2014-2015 academic year, created an informational webpage (please see http://www.skidmore.edu/divestment/), issued an intermediate report on its work in January, held two community meetings to discuss the intermediate report and divestment in general in February, and reviewed comments received from community members (including alumni) via the divestment webpage throughout much of the spring semester.

The following report includes a brief summary our work and, more importantly, our recommendations to the Administration and Trustees on how Skidmore College might respond in meaningful ways to the above-noted call for divestment. We encourage the review of our intermediate (*Phase 1*) report as context for this final report from the TFD. It is worth noting that the process of evaluating divestment has been a rich learning opportunity for our community. A diverse array of voices engaged in complex, well-informed, and civil conversations about climate change, energy resources, different forms of risk, and our multi-faceted priorities and values as an institution. Indeed, we believe that our recommendations are consistent with the expressed views of many members of our community. Finally, please note that while the TFD has developed its recommendations based on the overall consensus of the group, each recommendation may or may not reflect the personal opinion of any particular individual member of the TFD.

BACKGROUND

Fossil fuel divestment represents the process of selling equity or other investments in companies engaged in the exploration, extraction, processing or sale of fossil fuels, primarily for ethical rather than economic reasons. Such divestment can operate at varying levels of intensity: it can be limited to coal companies, can include integrated oil and gas companies, and can sometimes also include oil service companies. Most divestment campaigns, however, focus on the top 200 companies (100 coal & 100 oil and gas) by reported carbon reserves (CO2 potential). More specifically, divestment campaigners such as *350.org* are using *The Carbon Underground 200 Report* to identify their targeted fossil fuel companies. (See http://fossilfreeindexes.com/research/the-carbon-underground/.)

The pressing context for this work is, of course, climate change, and the direct relationship between climate change and the greenhouse gas emissions associated with the use of fossil fuels. It is now unequivocal that there is warming of the climate system, and it is scientific consensus that human influence has been the dominant cause of this warming. The impacts of climate change are unparalleled, and, if left unchecked, climate change will increase the likelihood of severe, pervasive, and irreversible impacts for people and ecosystems around the world. Carbon dioxide levels are now hovering around 400 ppm, a concentration beyond the 350 ppm concentration now widely recognized as a target level to preserve our social systems. We understand with varying degrees of certainty that this warming has and will continue to cause snow and ice melt, sea level rise, ocean acidification, loss of permafrost, increased severity of storm events, significant changes in precipitation patterns, biodiversity loss, spread of certain insect-borne diseases, and the displacement of human populations and cultural loss. And the positive and negative feedback loops inherent in the climate system could very well accelerate these impacts.[1] It is also worth noting that there are major inequities intrinsic in contemporary climate change. Relatively few people have enjoyed the benefits of high levels of greenhouse gas emissions, and, of course, not everyone is experiencing the burdens of climate change equally. As one metric, estimates of climate change-induced displacement range from 150-300 million people by 2050, with low-income countries having the far largest burden of disaster-induced migration.

While major climatic shifts are indeed part of geological history, contemporary climate change is different. It is being triggered by rational beings who are able to predict, with varying degrees of certainty, the profound changes that will impact, directly, the lives of each and every one of us. The reach and depth of climate change sets it apart from any other social issue we have ever encountered or will likely ever encounter, and hence the willingness of many institutions to engage in the work around fossil fuel divestment. While it is widely recognized that divestment is unlikely to have an impact on the market valuation of individual fossil fuel companies, divestment campaigns are intended to raise awareness about climate change, send a strong signal to policymakers and financial markets, sustain public pressure, and foster informed public debate. Thus while the TFD recognizes the limited benefit of the divestment efforts imagined by some, it is convinced that the wisdom and careful thought Skidmore already gives to sustainability should also be applied to its investment decisions.

To date, there are 27 institutions of higher education in the United States and abroad that have announced their intention to divest (at least at some level) and their approach to divestment has ranged from full, immediate divestment to looking more closely at direct investments in coal, oil, and/or gas. The institutions that have divested fully tend to have small endowments and an institutional mission founded on sustainability. A few institutions with larger endowments (e.g., Stanford, Dayton, and Syracuse) have taken steps toward divestment by withdrawing from and/or committing to no future direct investments in coal (Stanford), or fossil fuel generally (Dayton and Syracuse). While many other schools have studied divestment, they have chosen not to divest, usually citing the risk to endowment returns and the complications associated with comingled funds (funds from a number of institutions pooled into a managed fund). But it is worth noting that concrete, meaningful outcomes have come from divestment conversations on many campuses, including stronger alignments between investing practices and institutional values, the creation of more environmentally responsible and proactive investment channels, and increased investments in on-campus sustainability efforts. The TFD endorses these efforts and looks forward to Skidmore emulating and improving on them.

As articulated in detail in the TFD's intermediate (*Phase 1*) report, the co-mingling of investment funds also presents significant challenges to divestment at Skidmore. Our total investment funds of about $377 million are actively managed by 40-50 managers in largely comingled funds, and our endowment income supports everything from scholarships to personnel to collaborative research. Based on an analysis by Skidmore's investment advisors, Colonial Consulting, we currently invest between 3-5% of our endowment in fossil-fuel assets. However, largely due to the apparent necessity to exit our current commingled investments as well as private equity and hedge funds if we were to fully divest, we are advised that divesting could mean significant reductions in the rate of return earned by our endowment

[1] 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.

– from a current projection of 8.3% annually to 6.4% annually. Under the assumptions outlined by Colonial Consulting, this could reduce the growth of our endowment by approximately $121 million over 10 years, and our endowment spending (takeout) by a cumulative $27 million over ten years. We should note that not all members of the TFD find this report convincing, but we must also admit that the report's overall findings are consistent with the findings of other such reports for other institutions. Ultimately, we all appreciate the risks and procedural challenges that Colonial outlines, and we accept the need for a mix of determined action and caution.

Skidmore has, of course, already acknowledged the deep connection between our commitment to responsible citizenship and our institutional behavior - especially in the realm of environmental awareness and sustainability. Through curricular, co-curricular, and infrastructure initiatives, Skidmore has positioned itself as a leader in sustainability and has already addressed climate change significantly by reducing our greenhouse gas emissions by approximately 48% since 2000. In addition, preliminary calculations indicate that this reduction will be closer to 73% with our recent solar, micro-hydro, and solar thermal projects.

The recommendations below grow out of the TFD's belief that the college can continue to act meaningfully, patiently and prudently to balance positive actions that respond to the threat of climate change with adequate protection of our investment returns. These recommendations recognize the structural constraints of comingled funds while carving a unique and arguably more meaningful path forward; a path that will likely be followed by other institutions grappling with the issue of divestment.

RECOMMENDATIONS

We would like to make clear that we are in agreement with the overarching goals of the divestment movement, in that we believe that climate change not only exists, but is one of the greatest challenges of our time, and that this challenge must be met squarely. However, although we share the divestment movement's goals, we are less sanguine about divestment as a tactic. The value of fossil fuel divestment, and the extent to which such divestment will actually serve to reduce greenhouse gas emissions, is uncertain and it will remain largely symbolic until there is greater consensus and more investment alternatives. The TFD imagines Skidmore contributing to a discourse that leads to increasing the availability of actively managed fossil-free and proactively sustainable investment options.

Also uncertain are the effects of fossil fuel divestment on the value and returns of Skidmore's endowment. We acknowledge that the consensus of most financial experts, including Skidmore's investment advisors, is that full fossil fuel divestment would result in significant negative financial impacts by way of lower investment returns. The effect of these lower returns would be to lower the endowment "takeout" and constrain funding for such things as financial aid and employee compensation (two of the largest expense items in the annual operating budget). Although there is significant uncertainty as to whether such dire effects would actually materialize, we must accept that there is a real risk that they could.

We are thus confronted with an apparent tradeoff: If we divest according to the terms of the petition that was presented to the Board of Trustees (full divestment within 5 years of all direct and indirect fossil fuel holdings) we will 1) take a symbolic stand in favor of combatting climate change – but with no likely "direct" impact on fossil fuel companies or GHG emissions, and 2) at a risk to our endowment (and therefore our ongoing operations) that while uncertain, may be significant.

Given this uncertainty, therefore, we would like to make clear at the outset that we do NOT recommend to the Board of Trustees that we commit to full divestment from all direct and indirect investments in the securities of fossil fuel companies (The Carbon Underground 200) within a strict 5-year period – as proposed by the Petition presented to the Board in December 2012, and endorsed by a subsequent SGA resolution.

We advise against divestment on those terms, not because we disagree with the goals of the divestment movement – but because of what we understand to be the uncertainty and financial risks associated with full divestment. That said, however, we also believe that a simple rejection of divestment is insufficient and not in accordance with Skidmore's espoused values with regard to sustainability, civic engagement, and our educational mission.

Given the possible negative financial impact on Skidmore's current and future activities, we believe that a more prudent approach is reasonable and that divestment is much more of a "process" than a simple "decision" made at a discrete point in time. We believe that Skidmore should move towards divesting all of its direct and indirect holdings of fossil fuel securities. We believe that this is fully consistent with Skidmore's values of sustainability and global citizenship, and it is quite simply the right thing to do. But it must be done in a way that eliminates or minimizes negative financial consequences, and the resultant impact on many of the good things that Skidmore does, which include supporting our on campus efforts at combatting climate change.

The following recommendations, therefore, represent incremental, multifaceted movements toward addressing climate change based on our ability to eliminate or mitigate unfavorable financial consequences, rather than on a strict commitment to divest by a certain date. We believe that this package of recommendations is actually more reflective of the diversity of transformations that are required to address climate change, and we think this approach could actually lead to more meaningful societal change.

1. Skidmore College should make an explicit commitment that it will not purchase or hold any equity or debt issued by companies on the Carbon Underground 200 List <u>in its direct holdings</u>.

Background & Rationale:

Skidmore currently holds no fossil fuel stocks in its direct holdings, which constitute about 15% of its total investment portfolio. However, there is no explicit policy preventing Skidmore from directly investing in the securities of fossil fuel companies.

The only three universities with larger endowments than Skidmore, and that are widely considered to have "divested" (at least, in media accounts and in the reports from divestment campaigners) are Stanford, the University of Dayton, and Syracuse. Stanford University divested its direct holdings of coal, while <u>retaining</u> its direct investments in oil and gas. It did NOT divest its underlying holdings in commingled funds and private equity investments. Similarly, the University of Dayton and Syracuse

University divested its direct holdings of fossil fuel securities, while retaining its underlying fossil fuel holdings in commingled funds, hedge funds, and private equity funds.

With no direct holdings of securities of fossil fuel companies, Skidmore is already in the same position as Dayton and Syracuse and, arguably, is in a "better" (more fossil-free) position than Stanford, except that it has no explicit policy regarding direct holdings of fossil fuel.

As already noted, our primary objection to across-the-board divestment is the cost and complication of executing such a policy, and the knock-on and potentially crippling effects on a range of other worthwhile Skidmore programs whose funding could be jeopardized. Such objections, however, would seem to apply far less to our direct holdings.

Explicitly committing to being fossil-free in our direct holdings makes current practice our policy. It is the right thing to do. We simply cannot envision Skidmore consciously and directly investing in the securities of fossil fuel companies.

This action may also have positive repercussions for Skidmore's own reputation as a leader rather than a follower – and we feel that Skidmore should take a leadership position on this issue. It is a tangible manifestation of our commitment to a fossil-free future. While full divestment at this time may be tactically problematic, a refusal to invest in fossil-free securities is not particularly complicated. It also points towards a policy of incremental divestment, and is a tangible and meaningful move in that direction. It will set a precedent; having eschewed direct investments in fossil fuel companies, it will point towards the eventual divestment of all of our underlying fossil fuel investments.

2. Reallocate approximately 4% of the endowment to fossil-free or sustainable and clean tech investment funds on a test basis, increasing this allocation over time if performance merits it; additionally, provide potential donors with the opportunity to direct their contributions to such fossil-free and sustainable investment choices.

Background & Rationale

Approximately 4% of the underlying assets in our endowment represent fossil fuel securities. The creation of a fossil-free and/or sustainable fund would, at least symbolically, represent a counterbalance to our underlying fossil fuel investments. Perhaps this is the moral equivalent of a carbon offset. More importantly, however, it would also represent a first step in a gradual move towards creating a fossil-free and sustainable investment portfolio. It would call upon our responsible investment managers to locate appropriate fossil-free and proactively "green" funds and invest in them on a limited basis, using funds that represent only a small portion of the endowment, but are non-trivial nevertheless, thereby minimizing risks and avoiding any significant negative financial consequences.

If this is done we will no longer need to speculate blindly as to the impact of fossil-free investing on our endowment returns; we would be able to more clearly gauge such effects by closely monitoring our "test" fossil-free and proactively "green" fund investments. We would begin to learn from our own experience in this sphere, and to develop competence in a "different" way of investing. It is a way to dip our toes in the water of fossil-free investing. If such investments prove to deliver reasonable returns, we should increase the percentage of our endowment allocated to fossil-free and sustainable investments over time.

A fossil-free fund option would also offer potential donors the option to direct their contributions to a fossil-free or proactively "green" investment category. In this way, donors who care about this issue can also play a role in pivoting our endowment towards a more fossil-free composition.

3. Collaborate with other comparable institutions of higher education to influence and/or accelerate the creation of high performance, professionally managed, fossil-free and/or sustainable portfolios that will generate acceptable "alphas" and more generally expand the universe of fossil-free and/or sustainable investment options that are available to Skidmore and other institutions.

Background and Rationale

One of the factors that the experts seem to consider problematic in any attempt to divest from fossil fuel is a perceived lack of fossil-free investment alternatives that may offer returns similar to those we have realized to date on our overall portfolio. In all candor, the TFD is not in full agreement with this, since we are aware of certain fossil-free funds that seem to produce acceptable financial returns - although some would argue by assuming higher levels of risk. But we are not experts, and most investment advisors appear to have a different view and, like Skidmore's own advisors, Colonial Consulting, seem to consider such funds and their managers "simply not the best." Although such funds exist, they clearly do not yet enjoy the confidence of investment advisors

But we cannot help believing that if a critical mass of institutions of higher education who shared a common vision and objective of creating fossil-free endowments joined forces to campaign for the creation of "better" fossil-free investing options, then such options would materialize. The incentive of a large pot of institutional money seeking investment managers willing to maximize portfolio returns within the constraints of a fossil-free investment strategy would, we feel, generate some interest.

Skidmore College should take the lead in partnering with other institutions and advocating for the creation of high quality, professionally managed fossil-free funds in which Skidmore and like-minded institutions can invest.

4. Explicitly encourage our 40-50 investment managers to reduce or eliminate their holdings of fossil fuel investments to the greatest extent possible, consistent with financial realities and prudence, and clearly articulate to our investment managers our interest in moving towards a fossil-free portfolio.

Background & Rationale

While we understand that investment managers prefer to have free rein to invest as they see fit to realize maximum returns for their clients (and themselves), it would seem perfectly acceptable to inform them of our own values regarding fossil fuel investments and the direction that our own investment strategy may take in the long term. For example, as a part of its own decision regarding divestment, and the package of actions that it took, Stanford University wrote to their investment managers "recommending" that they divest from all of their holdings in coal. While investment managers may certainly choose to ignore such recommendations, and our request may have little or no effect, it seems only fair that our investment managers are at least aware of our own perspective on the issue of divestment.

5. Acknowledge the linkage between Skidmore's investment portfolio and its institutional values, and amend Skidmore's existing Investment Policy so that it incorporates these values.

Background & Rationale

We understand that the Board of Trustees has a fiduciary responsibility to prudently manage the college's investments and use them to further the mission of the institution. But we do not believe that such fiduciary responsibility extends to maximizing the financial return to the endowment at any cost. Indeed, we do not believe that Skidmore's endowment, and the way in which it is managed, should be considered to be separate and apart from the values and ethos of this institution.

Our divestment discussion, of course, is part of larger discourse about using endowment investments to advance political or moral goals. The focus of this discussion is whether climate change, labor conditions, or any other value or concern about a social issue should influence investment decisions. There is considerable disagreement about this question, but little doubt that colleges will continue to see requests for divestment from various industries from students, faculty, and alumni. Indeed, it is just this argument – the 'slippery slope' argument – that some have used against divestment.

Our recommendation involves adding consideration of social and environmental impacts as part of our investment policy and, creating an inclusive, transparent structure for doing this. Admittedly, we are unsure as to exactly what sort of structure would be most appropriate. We suspect that, for those advocating complete and rapid divestment, such an approach is likely a disappointment and, on the other side, we suspect it might be seen as a capitulation. However, this recommendation lies purposely between these poles. Institutions with substantial direct holdings—Columbia, Dartmouth, Earlham, for example—have substantively and successfully engaged students, faculty, staff and trustees in ongoing discussions about the ethical implications of the institution's investments. The experience of these colleges provides a beginning sense of the sorts of structures the college might adapt for studying new investment opportunities and for engaging in corporate governance activities when we hold securities directly.

We believe that Skidmore College needs to link its investments and its values, and ensure that its investments are consistent with the moral, social, and environmental principles that are at the core of our mission as an institution. At a minimum, we should not derive income from investments in securities of firms that operate in a manner, or in specific business sectors, that are inimical to those principles. However, the college's reliance on comingled funds severely limits its freedom and capacity to influence the social impact of its investments. If the college adopts our recommendation to move a portion of the endowment to a fossil-free and/or proactively sustainable investment fund, and if this proves to be financially responsible, we believe the investment committee should consider expanding the percentage of the endowment held directly in order to increase the correlation between our values and our investment practices.

A well-articulated addition to our current Investment Policy would guide and perhaps constrain our overall investment strategies. It would certainly have informed our deliberations regarding divestment from fossil fuel investments. It seems to us important to define a linkage between our values as an institution and the broad parameters within which we manage our endowment. We understand that this may represent a level of constraint that may concern the Investment Committee of the Board, but other institutions have successfully implemented such overarching investment policies. For example, Stanford has had a Statement on Investment Responsibility since 1971, which states that while the primary obligation of the Board of Trustees is to maximize financial return on the endowment in order to support the programs of the University, it must do so in a way that avoids "corporate policies or practices [that] create substantial social injury."

6. If these recommendations are endorsed, they should be incorporated into the annual Strategic Action Agenda and a review of our progress in achieving them should be conducted on an annual basis by an appropriate group determined by the President.

Background & Rationale

Divestment is a process rather than a decision, and it may extend over some period of time. If the Board of Trustees accepts our other recommendations, it seems sensible that our divestment process should be reviewed, like other strategic priorities, on an annual basis. This will mean that divestment will remain an ongoing action item, and there will be conversations about our progress. Of course, if our other recommendations are rejected, then there is little need for this sort of follow up.

We would like to thank President Glotzbach and the Board of Trustees for engaging with the issue of divestment, constituting the TFD to study divestment on behalf of the Skidmore community, and giving serious consideration to our recommendations.