

FOSSIL FUEL DIVESTMENT:

Environmentally sustainable,
financially responsible



AU Student Government
Financial Research Office
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The AUSG Financial Research Office is a service of AU Student Government, dedicated to producing high-quality reports on financial issues to inform student and administrative action on college affordability and other matters of university finances.

AU Student Government is the official representative body responsible for representing the interests of all American University undergraduate students to the University administration.

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INTRODUCTION AND SUMMARY

Introduction

Casting a shadow over public affairs around the world is the imminent threat of global climate change. Confronting this challenge, and ensuring some measure of tenable stability for the world, will require action on all fronts — by governments, business, and by civil society. As an institution that prides itself on engagement with the world around it, American University cannot ignore the climate. The students of this university have embodied that disposition toward progress in their consistent activism on this issue — specifically, the long-standing effort to convince the University to shed its financial investments in fossil fuels, the driving force behind climate change.

Students have continuously engaged directly with University leaders on the question of fossil fuel divestment. The Board of Trustees, tasked with managing our institutional investments, considered the question in 2014 at the behest of an organized student campaign. In 2014, the Board rejected divestment. While this decision was certainly a disappointment to many students, the Board's logic was coherent. Among the primary functions of the Board is to provide sound stewardship of the University's investments. Having surveyed the issue, the Board determined that divestment would pose costs incompatible with its fiduciary responsibilities, forcing it away from divestment.

However, things have changed since 2014. When the students who entered AU this academic year graduate, a decade will have passed since the student body last formally called on the Board to consider divestment. This report will demonstrate that in the past several years, changes in the global economy, particularly in the energy industry, have undermined the logic by which the Board rejected divestment. The authors of this report take the Board at face value when they present to the AU community that they are concerned about the climate but restrained by their fiduciary responsibility. We hope to prove with this report that divestment is compatible, perhaps with even necessitated by, that fiduciary responsibility. Fossil fuel divestment is not just the moral thing to do, as important as that is. It is also smart investing.

This report will begin by providing background on the University's endowment and the recent history of divestment at AU. It will then detail the post-2014 economic developments that we believe bring divestment in line with AU's financial interests. It will close with an overview of relevant legal issues and some reflection on AU's identity as an institution.

Findings

Based on the research described in this report, the AUSG Financial Research Office has reached the following factual conclusions:

- American University's endowment stands at a value of approximately \$750 million, with fossil fuel exposure of 0.6 percent, or approximately \$4.5 million invested in fossil fuels.
- The endowment's overall fossil fuel exposure has declined by about 85 percent since 2014, with AU divesting millions of dollars of previous fossil fuel holdings.
- AU's portfolio already has fossil fuel exclusion equivalent to some peers that claim to have divested, including a negative screen on direct fossil fuel investments.
- After a significant multi-year student campaign, the Board of Trustees considered and rejected complete divestment in November 2014, citing fiduciary concerns over management costs and potential loss in returns.
- An April 2014 advisory report to the Board of Trustees recommended in favor of divestment based on evidence that it would not harm investment returns or impose significant costs.
- Things have changed since 2014 — numerous economic developments, particularly in the energy and finance industries, call into question the Board's previous rationale in rejecting divestment.
- Investments in fossil energy have significantly declined in performance over the past several years, with investment indices that exclude fossil investments performing better than those with fossil investments.
- Several policy, technological, and economic trends suggest that the financial decline of fossil fuels will continue into the foreseeable future.
- Academic studies of fossil fuel divestment consistently find that it has neutral or positive effects on portfolio returns, in line with other studies of socially responsible investment in general.
- Climate change threatens fossil fuel investments with severe risks stemming from regulation, technological change, and stranded assets.
- Since 2014, the finance industry has adapted as fossil fuel divestment becomes more common, reducing the technical burden and execution costs of divestment.
- Some of the world's most prominent institutional investors have divested from fossil fuels, further indicating the plausibility of divesting while adhering to fiduciary requirements.
- Fiduciary duty, specifically the duty to monitor, may require the Board to reconsider divestment.
- Overall, sufficient evidence exists to warrant a renewed investigation by the Board of Trustees into whether divestment is compatible with its fiduciary responsibilities.

Recommendations

In light of our findings, the AU Student Government Financial Research Office makes the following recommendations:

1. The Board of Trustees should undertake a renewed, extensive review of whether fossil fuel divestment is compatible with its fiduciary responsibilities.
 - a. The Board's renewed investigation should focus on economic changes since 2014.
 - b. As it did in 2013-2014, the Board's renewed investigation should incorporate formalized advice from students and faculty, and any findings of such an advisory body should be made public.
 - c. The Board's renewed investigation should specifically evaluate the investment potential of certain reputable fossil-free investment funds compared to AU's current carbon-exposed holdings.
 - d. As it did in 2013-2014, the Board should publicly report to the AU community the logic of their decision pursuant to this renewed investigation.
2. The Board should divest its remaining indirect carbon-exposed holdings and reinvest in carbon-free alternatives, contingent upon the aforementioned review.
3. The Board should preserve its current negative screen on direct fossil fuel investments and enact a negative screen on future indirect investments, declining to invest in fossil fuel firms.

AMERICAN UNIVERSITY'S ENDOWMENT

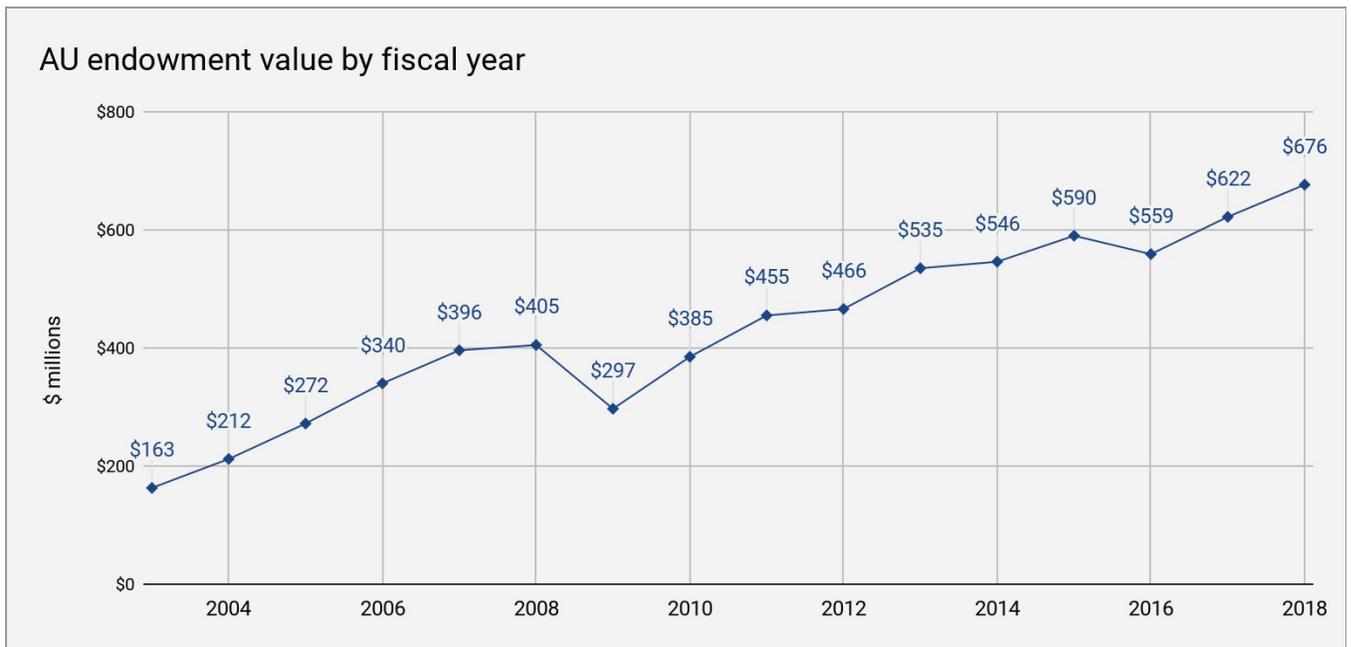
Overview

The University's endowment is a collective pool of investments, created primarily from financial gifts to the University. The endowment is managed by the Board of Trustees to fund scholarships and other University activity. At a current value of approximately \$750 million, the endowment is composed of 84 individual investment funds.¹ The endowment is invested into several different asset classes, such as domestic equity, international equity, hedge funds, real assets, and fixed income investments.

Much of the endowment is invested in index funds, which are broad investment baskets created to mimic the performance of certain public indices, such as the S&P 500. An important item to note is that a significant portion of AU's endowment investments are commingled, whereby AU's funds are pooled by investment managers together with the funds of other institutional investors (universities, hospitals, etc) and invested in funds collectively.

The endowment has grown significantly in recent years, as shown in **figure 1**. Since 2003, the endowment has more than quadrupled in value. At \$750 million, AU has a medium-sized University endowment.

Figure 1. American University endowment value by fiscal year²



¹ Preparing for the Future.” American University 2017-2018 Annual Report. p. 61.

² Data retrieved from the Department of Education’s Integrated Postsecondary Education Data System

Divestment Prospects

Some assets of the endowment include investments in fossil fuel firms. AU's chief financial officer Doug Kudravetz reported to the AUSG Financial Research Office in January 2020 that the endowment's total fossil fuel exposure was 0.6 percent, or approximately \$4.5 million invested in fossil fuels. This is a significant decrease since Kudravetz reported publicly in 2018 that fossil exposure was approximately \$18.8 million.³ The endowment's fossil fuel exposure is concentrated entirely in commingled funds.⁴

Removing any fossil fuel investments from the endowment would be a complex task. Because so much of the endowment is invested in commingled and index funds, rather than individual direct investments, AU could not just sell its fossil fuel investments individually. Rather, AU would need to sell entire funds with fossil fuel exposure and reinvest that value, likely in other, fossil-free funds.

Since the Board considered divestment in 2014, when fossil fuel exposure was 4.1 percent, the endowment's fossil fuel exposure has declined by about 85 percent.⁵ Kudravetz told the Financial Research Office that this decline has been caused by AU selling certain fossil-exposed investments and reinvesting in fossil-free funds. Among other actions, Kudravetz reported that the Board decided in November 2019 to divest from two funds worth \$175 million, which entailed divestment of \$6.9 million from fossil fuel holdings.

Additionally, the Board currently instructs its investment managers to avoid all direct investments in fossil fuels.⁶ While three universities widely considered to be peer institutions — Georgetown University, Brandeis University, and Syracuse University — have all publicly claimed at least partial divestment, AU already meets the divestment standards established by those institutions.⁷ Georgetown, for instance, has pledged not to make direct investment in coal, which AU already does. Brandeis resolved to divest from direct fossil investments, but not fossil-exposed commingled funds. By some measures, AU has already begun to divest. If it were to continue, it would be a leading institution on this front.

³ Papszun, Dan. "Fossil Free AU escalates efforts to convince university to divest from fossil fuel industry." *The Eagle*, November 29, 2018.

⁴ Reported to the AUSG Financial Research Office by AU CFO Doug Kudravetz, January 20. It should be noted that this isolation of exposure in commingled funds is different than in 2014; see ACSRI report, p. 5 (\$2.4 million exposed in separately managed category).

⁵ 4.1 percent exposure according to the 2014 ACSRI report

⁶ Reported to the AUSG Financial Research Office by AU CFO Doug Kudravetz, January 2020

⁷ "Georgetown Divests From Direct Investments in Coal Companies." *Georgetown.edu*, June 4, 2015; Geller, Jen. "Trustees make long-awaited divestment choice." *The Justice*, December 4, 2018; Tobin, Dave. "Syracuse University to divest fossil fuel investments." *Syracuse.com*, April 1, 2015.

DIVESTMENT IN 2014

Overview

In November 2014, the Board of Trustees decided against fossil fuel divestment after a years-long, campus-wide campaign to raise the issue to their consideration. This campaign dated back to 2012, when student activists, particularly those involved with Fossil Free AU, engaged with University leadership about the prospect of divestment. This coincided with a nationwide rise of campus divestment campaigns.⁸ Fossil Free AU's priority was to build a coalition of student support on campus, including Student Government and the student trustee. In March of 2013, the Undergraduate Senate of Student Government proposed a referendum to be put to a campus-wide vote, asking the student body whether the endowment should be divested from fossil fuels. The referendum passed in April of that year with 79 percent in support.

In November of 2013, the Board chartered the Advisory Committee on Socially Responsible Investing (ACSRI), which was comprised of students, including aforementioned activists, as well as faculty and staff. ACSRI was established to evaluate issues around divestment, and its activities will be discussed in detail later in this report. On April 24, 2014, an ACSRI report recommending divestment was formally submitted to the Finance and Investment Committee of the Board of Trustees, just in time for the Board's meeting in May, which took place in Kay Spiritual Center. On the day of the meeting, Fossil Free AU activists staged a sit-in outside the building. However, the Board did not vote on the divestment measure at that meeting. It was, instead, scheduled for November of 2014, which took place in the same building. Another rally was put on by activists, amassing the great attendance.

The Board's Decision

As a result of the student campaign described above, the Board considered the question of divestment. The Board's consideration involved a presentation from Student Government comptroller Ben Johnson, a report from the Advisory Committee on Socially Responsible Investment (described later in detail), as well as input from the University's general counsel and financial advisors, Cambridge Associates. After the Board's November 2014 meeting, University president Neil Kerwin and Board chair Jeffrey Sine announced the decision of the Board to not enact the divestment measure. Chairman Sine released a memo to the AU community detailing the logic of the Board's decision, which relied heavily on the advice of the general counsel and Cambridge Associates.

The general counsel's advice, which is recounted in detail later in this report's discussion of the Advisory Committee on Socially Responsible Investing, essentially found that the Board could only pursue divestment

⁸ Gillis, Justin. "To Stop Climate Change, Students Aim at College Portfolios." *New York Times*, December 4, 2012.

if such action aligned with the Board’s legally obligated fiduciary duty not to incur significant costs or negative effects on endowment returns. The advice from Cambridge Associates is not as publicly available as the general counsel’s input. Publicly, at the time of the Board’s investment decision, Cambridge had released statements and reports indicating its ability to explore prudent divestment and fossil-free reinvestment avenues, seemingly endorsing the potential financial and legal legitimacy of socially responsible investing.⁹ However, Cambridge also insists throughout these materials that divestment decisions could only be properly made on a case-by-case basis, depending on the investments and institutions in question.

In his memo, Sine wrote that Cambridge “could not provide assurance that divestment was unlikely to have an adverse effect” on the endowment and future returns. Further, Sine’s memo reported Cambridge’s estimate that divestment would result in an extra \$1.1 million dollars in annual endowment management costs. The cumulative impact on the endowment value of such an annual increase are shown in **figure 2**. By reducing the underlying base from which the investments grow, the extra \$1.1 million in management costs would result in significant losses. However, it is not clear than the management costs would remain constant over the amount of time projected in this chart.

Figure 2. Endowment impacts of \$1.1 million in additional fees¹⁰

Years	Loss at 10-year avg. returns (8.4%)	Loss at inception-to-date returns (10%)
10	\$18 million	\$19 million
20	\$57 million	\$69 million
30	\$145 million	\$200 million
40	\$343 million	\$535 million
50	\$787 million	\$1.4 billion

Based on that assessment of management costs and potential lost returns, the Board decided that divestment contradicted its fiduciary duty, preventing divestment altogether.

⁹ “Cambridge Associates’ Perspective on the Ongoing Fossil Fuel Divestment Discussion.” Cambridge Associates. November 2014.

¹⁰ Table provided by AU CFO Doug Kudravetz

The Advisory Committee on Socially Responsible Investing

As part of its review of fossil fuel divestment in 2013 and 2014, the Board established an Advisory Committee on Socially Responsible Investment (ACSRI), to provide advice “regarding ethical, social, and environmental issues that might influence the management of the university’s endowment.” This committee was composed then of two undergraduate students, one graduate student, three faculty members, one staff member, and one representative from the AU Finance Office. At the request of Fossil Free AU, ACSRI evaluated the proposal of divestment. Its consideration took place concurrently with the Board’s broader consideration of the issue.

In April 2014, ACSRI issued a report to the Board’s Finance Committee on its findings regarding Fossil Free AU’s proposal. In its report, ACSRI sought to answer the following questions:

1. Can the endowment be used to express social values? Would doing so be consonant with the Board of Trustee’s fiduciary responsibilities?
2. Is climate change an issue so closely aligned with AU’s core mission that it would justify using the endowment as a vehicle for expressing a position on the issue?
3. How can the endowment be used to address climate change? Would doing so result in below-market returns or other financial losses?
4. Can the endowment be an effective tool for addressing climate change?

Guided by those questions, ACSRI advised the Board in favor of divestment. Underlying all of ACSRI’s investment was a single criterion — whether AU could pursue divestment depended on whether divestment was in line with the Board’s fiduciary responsibilities. ACSRI’s focus on this criterion was a consequence of its analysis of relevant law. As an institutional governing body, the Board is subject to the District of Columbia’s Uniform Prudent Management of Investment Funds Act, which requires the Board to fulfill a number of criteria in all of its management decisions, which, taken together, constitute fiduciary responsibility.

ACSRI’s understanding of fiduciary responsibility, and how it interacted with divestment, was informed by advice it obtained from the University’s general counsel, Mary Kennard. Kennard issued a memo to ACSRI in November 2013 outlining the general counsel’s understanding of the subject. In this memo, Kennard explained that “socially responsible investing,” including fossil fuel divestment, could be in line with fiduciary responsibility if the investment strategy satisfied the duties of “care” and “loyalty.” The duty of care here means that the investments are managed “with the care an ordinary prudent person in a like position would exercise.” The duty of loyalty means that management actions are taken “solely in its [the corporation’s] best interest, not as a vehicle for promoting [directors’] personal beliefs or causes.”

Although divestment would promote a certain cause, the general counsel's memo further clarified that the Board "would not violate the duty of loyalty by considering an investment's social consequences when 'the costs of considering such consequences are *de minimis*.'" This understanding has also been expressed by courts reviewing socially-motivated investment decisions.¹¹ *De minimis* in this context refers to something too small to merit legal consideration. Therefore, according to the general counsel's memo, the endowment can be used to express social values, such as in fossil fuel divestment, so long as the act of divestment, and subsequently different investment choices, do not pose any considerable costs to the endowment.

The ACSRI report determined that divestment would satisfy the duties of care and loyalty because divestment could be executed in such a way as to present nothing more than *de minimis* costs. Two types of cost were analyzed: loss of future value and the management costs associated with carrying out divestment. On the question of future earnings, the report reviewed academic studies, noting that studies on socially responsible investments provided comparable returns to traditional investments. The report noted, however, that these studies analyzed socially responsible investment in general, rather than fossil fuel divestment specifically, due to the fact that fossil fuel divestment was such a recent phenomenon as to have not acquired a dedicated economic literature. To minimize management costs, the report recommended a multi-phase strategy. The most significant phase would be reducing overall exposure by half by targeting real assets, an approach that Cambridge Associates, the Board's advising firm, estimated would cost \$100,000 annually to execute. In the context of AU's portfolio, the report deemed those costs to be *de minimis*.

Aside from that financial analysis, the report evaluated climate change as an issue and whether divestment would be a worthwhile step in confronting it, under the stipulation that it would be coherent with AU's financial needs. Drawing on the University's self-professed "commitment to social justice" and mission to "turn ideas into action and action into service," the report concluded that AU's divestment would be an important action in the climate space. "Civil society can play a crucial role in spurring governmental action by de-normalizing the use of fossil fuels and associating fossil fuel companies with climate disruption," the report explained. Divestment would position "AU to act as a leader in galvanizing colleges, universities, municipalities, companies, and industries to use their portfolios as vehicles of political expression and thus build civil society momentum for transitioning to a post-fossil fuel economy."

¹¹ *Board of Trustees v. City of Baltimore*, 562 A. 2d720 (Ct. App. Md. 1989)

DIVESTMENT AS A FINANCIAL STRATEGY

The Financial Decline of Fossil Energy

In the broadest terms, the case for divestment is that fossil energy is an increasingly poor investment, and it seems that this trend will continue in the foreseeable future.

It has not always been the case, however, that fossil fuels were an undesirable investment. For many years, fossil fuel companies were among the most successful in the whole economy. But their success has declined precipitously. This is illustrated in [figure 3](#), which shows the top ten firms on the S&P 500 over time, in terms of their weight in the index.

Figure 3. Fossil energy firms on the S&P top 10 ¹²

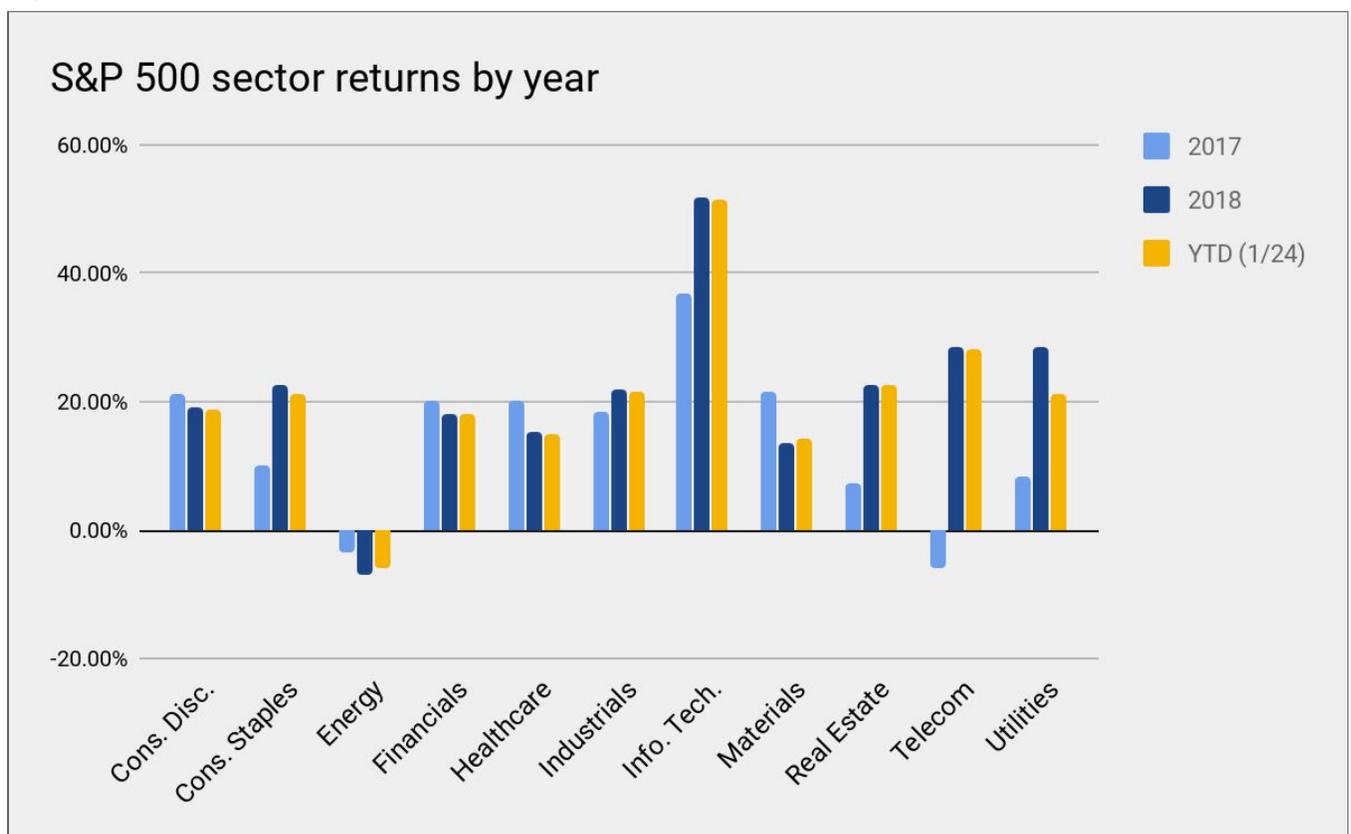
	1980	1990	2000	2010	2020
1.	IBM	IBM	GE	ExxonMobil	Apple
2.	AT&T	Exxon	ExxonMobil	Apple	Microsoft
3.	Exxon	GE	Pfizer	Microsoft	Amazon
4.	Standard Oil Indiana	Phillip Morris	Citigroup	Berkshire Hathaway	Facebook A
5.	Schlumberger	Shell Oil	Cisco Systems	GE	Berkshire Hathaway B
6.	Shell Oil	Bristol Meyers	Walmart	Walmart	Alphabet A
7.	Mobil	Merck	Microsoft	Google	Alphabet C
8.	Standard Calif.	Walmart	AIG	Chevron	JPMorgan Chase
9.	Atlantic Richfield	AT&T	Merck	IBM	Johnson & Johnson
10.	GE	Coca Cola	Intel	Proctor Gamble	Visa A

¹² Sanzillo, Tom, et al. "The Financial Case for Fossil Fuel Divestment." Institute for Energy Economics and Financial Analysis, 2018; S&P 500 Companies by Weight. slickcharts.com.

Here we see the gradual decline of fossil firms. At the beginning of this figure in 1980, an American economy with strong performance from energy-intensive industries like manufacturing buoyed the fossil energy industry, which comprised almost the entire top ten. However, as the nature of the economy has shifted over the decades, fossil firms performed worse and worse. This year, none of them crack the top ten.

The energy sector, dominated by fossil firms, has had the worst performance of any sector on the S&P 500 over the past several years. **Figure 4** compares sector returns over the past three years. The energy sector posted negative returns every year, the only sector without any positive returns over this time period.

Figure 4. S&P sector returns ¹³



This story of financial decline can be illustrated through the case of the flagship fossil firm, ExxonMobil. **Figure 5** displays ExxonMobil's returns compared to those of the S&P 500 over the past several years. For many years, the stock's returns exceeded those of the overall index. However, ExxonMobil's performance peaked in April 2014. Since then, it has been declining, while the S&P 500's performance continues to rise. Even the most successful of the fossil energy firm has begun to underperform the stock market.

¹³ Sanzillo et al.; Fidelity eResearch; Barchart.com.

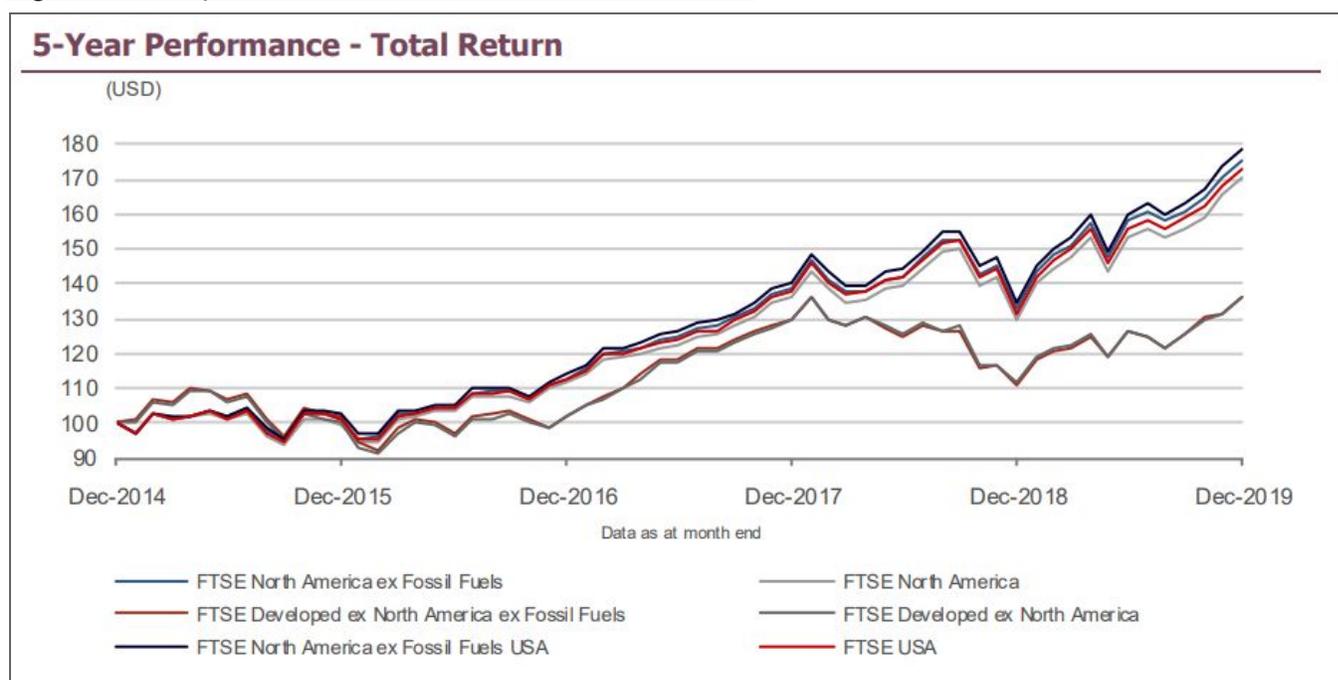
Figure 5. ExxonMobil returns compared to S&P 500



Given the poor performance of fossil energy companies over the past several years, it should come as no surprise that investments in fossil energy does not yield the success that it once did. Looking at various indices, a clear pattern emerges: portfolios without fossil fuels do better than those with fossil fuels. **Figure 6** displays the returns of various FTSE North American and US-specific index funds with and without fossil fuel investments. In every single index at every single time interval, those indices without fossil fuels do better than those with them. Considering that AU’s portfolio is comprised predominantly of US investments, it is especially relevant that the US index excluding fossil fuels achieved returns seven percent higher than its fossil-exposed counterpart. On the basis of these funds that represent the US stock market, the idea that abandoning fossil fuel divestments would harm future returns, part of the Board’s logic in 2014, appears questionable at best.

Another important metric that comes with these FTSE indices is their volatility. For each index pair, volatility is nearly identical between the fossil-free and traditional funds. This suggests against the idea that fossil-free investments are riskier than fossil-exposed investments.

Figure 6. Comparison of FTSE North American indices ¹⁴



Performance and Volatility - Total Return

Index (USD)	Return %						Return pa %*		Volatility %**		
	3M	6M	YTD	12M	3YR	5YR	3YR	5YR	1YR	3YR	5YR
FTSE North America ex Fossil Fuels	9.1	11.2	32.4	32.4	55.7	75.7	15.9	11.9	12.1	11.7	11.9
FTSE North America	9.0	10.7	31.5	31.5	52.0	70.2	15.0	11.2	12.1	11.7	12.0
FTSE Developed ex North America ex Fossil Fuels	8.9	8.2	23.1	23.1	33.8	36.5	10.2	6.4	8.8	10.7	12.3
FTSE Developed ex North America	8.6	7.4	22.1	22.1	33.5	36.1	10.1	6.4	8.8	10.8	12.4
FTSE North America ex Fossil Fuels USA	9.3	11.5	32.5	32.5	56.9	78.6	16.2	12.3	12.4	11.8	12.0
FTSE USA	9.2	10.9	31.6	31.6	53.4	73.4	15.3	11.6	12.3	11.8	12.0

* Compound annual returns measured over 3 and 5 years respectively
 ** Volatility – 1YR based on 12 months daily data. 3YR based on weekly data (Wednesday to Wednesday). 5YR based on monthly data

¹⁴ “FTSE North America ex Fossil Fuels Indices.” FTSE Russell, December 31, 2019.

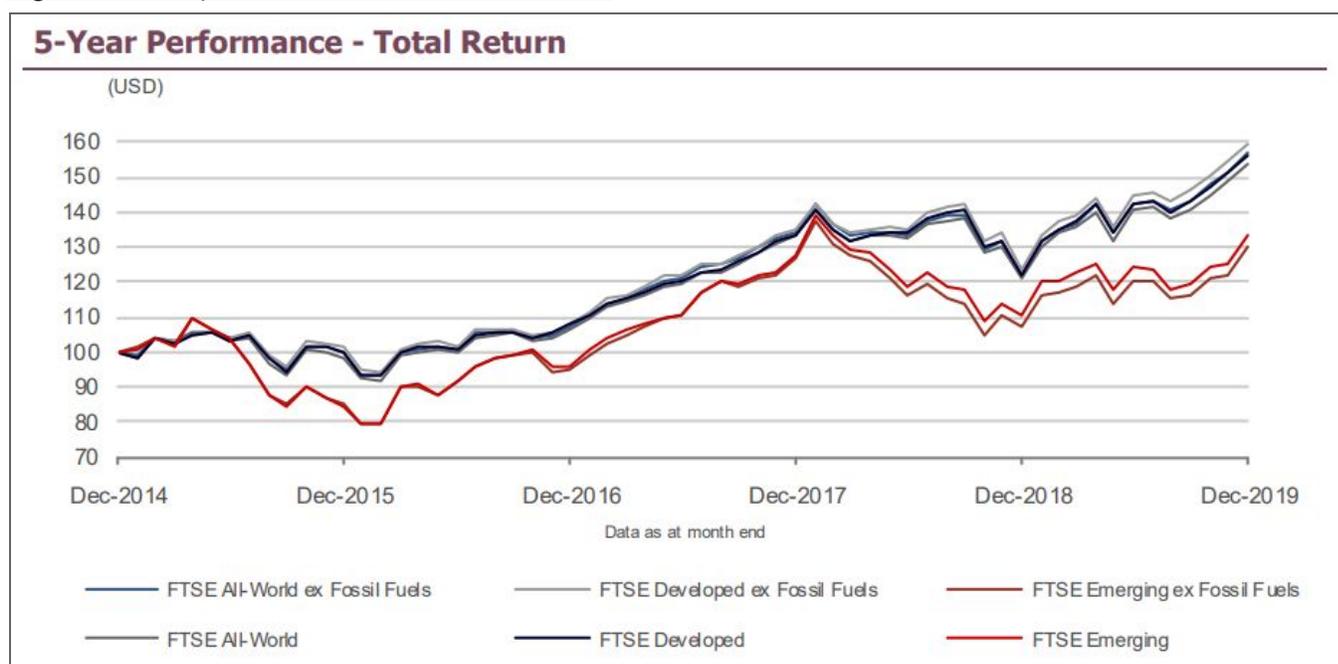
The same pattern shown with these North American indices can be seen with FTSE world indices, as displayed on **figure 7**. Once again, indices without fossil fuel investments perform better than those with such investments, with the single exception of the Emerging index, which is concentrated in countries with less capability for sustainable production. Here as before, fossil free investments are shown to make better financial sense. And yet again, fossil-free investments have practically identical, often lesser, volatility as compared to their traditional counterparts, speaking to their stability.

For yet more evidence from the world stock market, **figure 8** compares the returns of the MSCI All Country World Index with and without investments in fossil fuels over the past nine years. Over that time period, the index excluding fossil fuels achieved returns 6.3 percent higher than the index with fossil fuels.

Overall, overwhelming evidence proves that fossil fuels are a relatively poor investment, and have been for several years.

[Figures 7 and 8 can be found on the following pages.]

Figure 7. Comparison of FTSE world indices ¹⁵



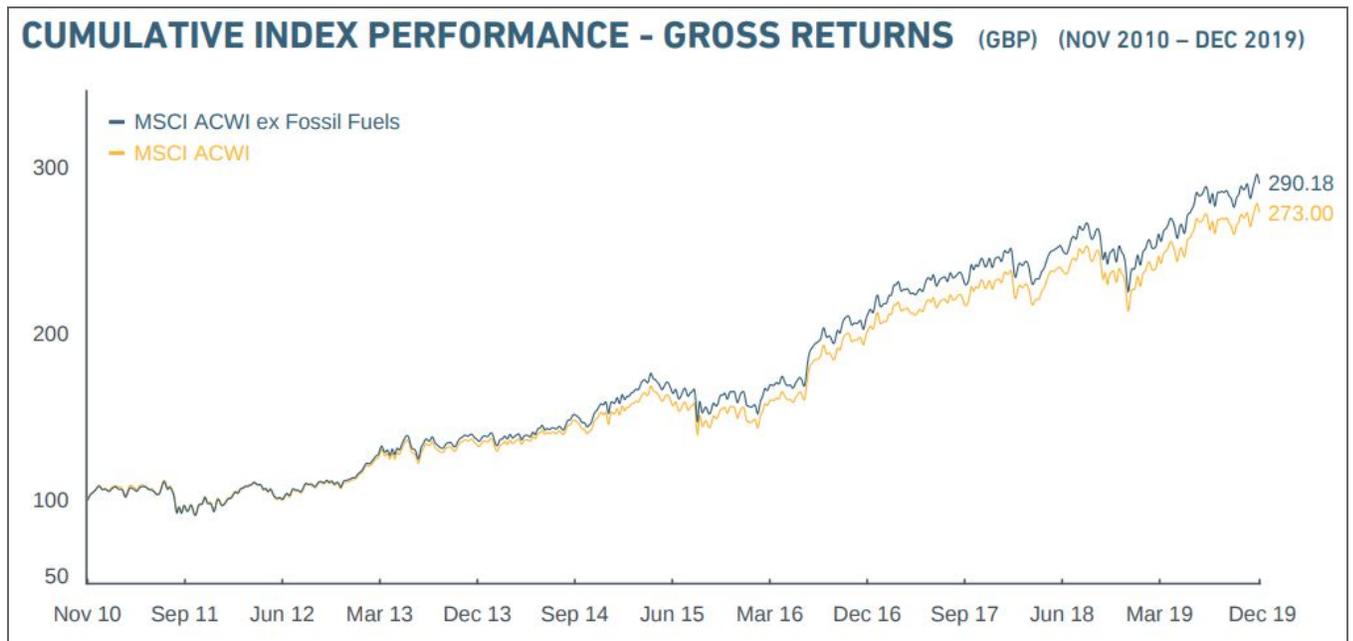
Performance and Volatility - Total Return

Index (USD)	Return %						Return pa %*		Volatility %**		
	3M	6M	YTD	12M	3YR	5YR	3YR	5YR	1YR	3YR	5YR
FTSE All-World ex Fossil Fuels	9.3	10.0	28.3	28.3	46.3	56.9	13.5	9.4	9.7	10.7	11.7
FTSE Developed ex Fossil Fuels	9.0	10.2	29.1	29.1	47.4	59.9	13.8	9.8	9.9	10.6	11.6
FTSE Emerging ex Fossil Fuels	11.8	8.3	21.0	21.0	37.5	30.3	11.2	5.4	10.9	14.4	15.2
FTSE All-World	9.1	9.3	27.2	27.2	44.1	54.0	13.0	9.0	9.7	10.8	11.7
FTSE Developed	8.8	9.5	28.0	28.0	44.8	56.3	13.1	9.3	9.9	10.7	11.7
FTSE Emerging	11.8	7.7	20.6	20.6	38.9	33.7	11.6	6.0	10.8	14.3	15.3

* Compound annual returns measured over 3 and 5 years respectively
 ** Volatility – 1YR based on 12 months daily data. 3YR based on weekly data (Wednesday to Wednesday). 5YR based on monthly data

¹⁵ “FTSE All-World ex Fossil Fuels Index Series.” FTSE Russell, December 31, 2019.

Figure 8. MSCI ACWI ex Fossil Fuels ¹⁶



The New Normal

Having observed the financial decline of fossil energy over the past several years, we will now examine several developments suggesting that this trend will persist into the future. The decline of fossil energy is here to stay.

Always looming over every matter related to energy is the threat of climate change. Governments, businesses, and other institutions around the world have committed to mitigating climate change, and such a task is primarily a matter of energy. Most prominently, the Paris climate accords came into force in November 2016, signifying a near universal commitment among the world’s governments to keep global warming under two degrees. Although the Paris agreement is not directly binding on governments, financial managers and analysts, such as researchers at BlackRock, believe that many governments will meet their commitments. ¹⁷ According to the Intergovernmental Panel on Climate Change, global carbon emissions must decrease to net zero in the next 30 years in order to meet the goals of the Paris agreement. ¹⁸

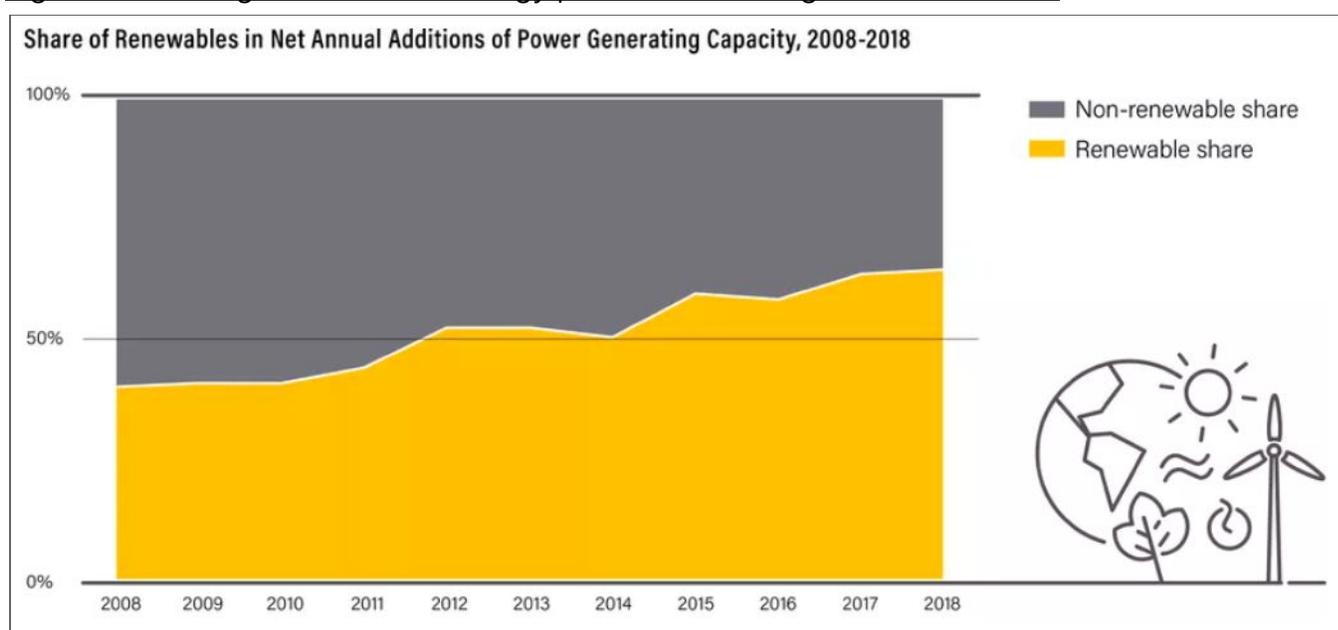
¹⁶ MSCI World ex Fossil Fuels Index, MSCI, December 2019.

¹⁷ Edkins, Michelle, et al. “Adapting portfolios to climate change: Implications and strategies for all investors.” BlackRock Investment Institute, September 2016.

¹⁸ “Summary for Policymakers of IPCC Special Report on Global Warming of 1.5°C approved by governments.” Intergovernmental Panel on Climate Change, October 2018.

Needless to say, these global commitments to reduce carbon emissions will require a drastic reduction in fossil fuel consumption. With fossil fuel investments already on a steady financial decline, it is difficult to imagine that they will achieve a sustained recovery in the face of a transforming global economy. To meet the need of sustainable energy, clean fuel sources are rising to take the place of the receding fossil energy sources. The OECD's International Energy Agency forecasts that renewable electricity production will increase by 50 percent between 2019 and 2024.¹⁹ As **figure 9** shows, renewable energy production has grown steadily for the entire past decade. Indeed, in every year since 2014, renewables made up a larger share of new energy capacity than fossil fuels and nuclear combined. The driving force behind the expansion of renewables is their continuously falling prices, which in turn put downward pressure on demand for fossil fuels.²⁰ These long-term trends will only solidify the financial decline of fossil fuels.

Figure 9. Growing share of new energy production coming from renewables²¹



Furthermore, the growing strength of renewables in the electricity sector will also put pressure on fossil fuels in other sectors as electrification progresses. Oil use in the transportation sector, for instance, will decline as more and more electric vehicles are produced. Driven in part by the attractive costs of renewable electricity, automobile firms plan to invest tens of billions of dollars into electric vehicle production.²²

¹⁹ “Renewables 2019: Market analysis and forecast from 2019 to 2024.” International Energy Agency, October 2019.

²⁰ Maloney, Peter. “Renewables challenge natural gas plants on price in latest Lazard analysis.” Utility Dive, December 20, 2016.

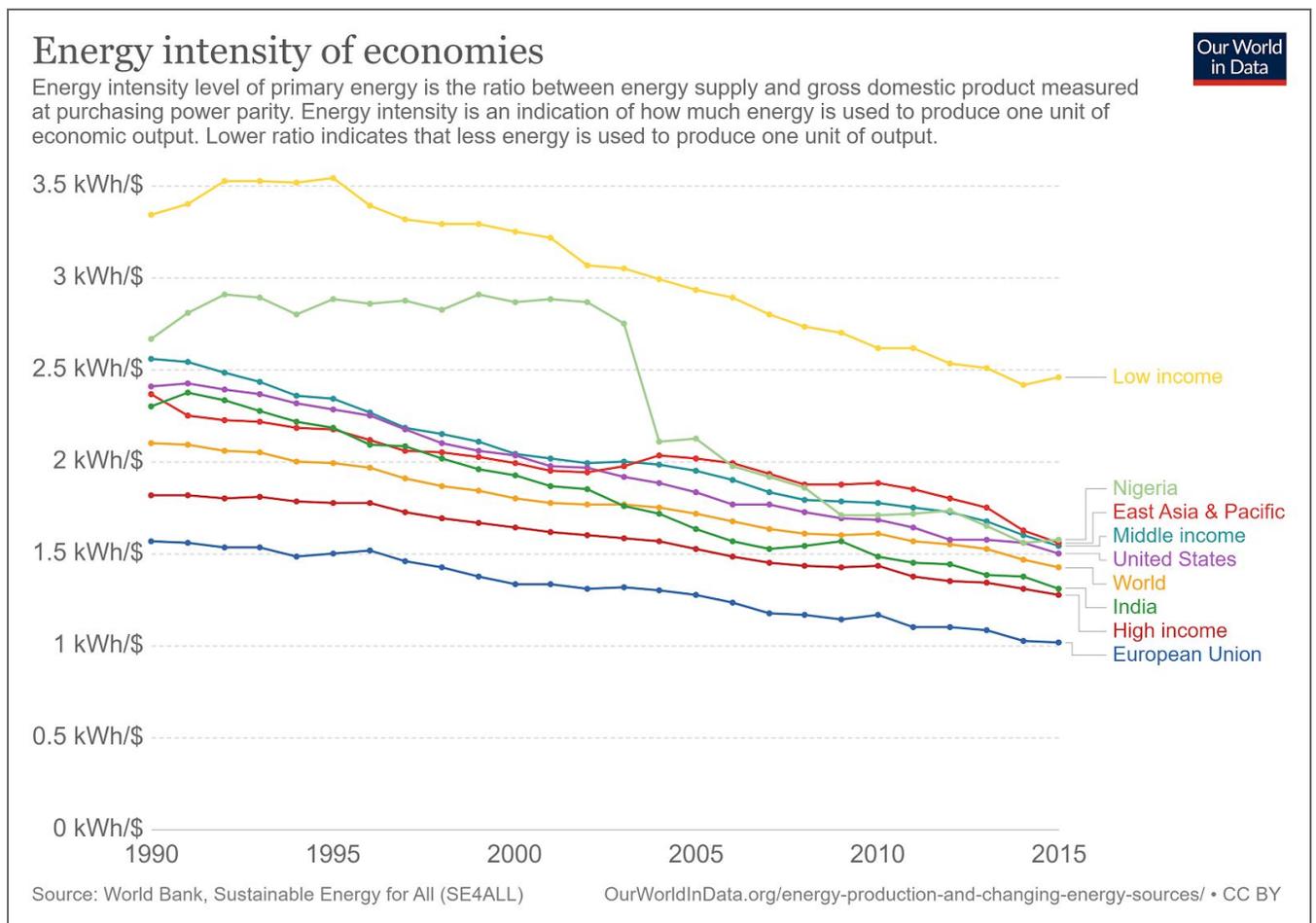
²¹ “Renewables 2019 Global Status Report.” Renewable Energy Policy Network for the 21st Century, June 2019.

²² Cremer, Andreas. “Volkswagen accelerates push into electric cars with \$40 billion spending plan.” Reuters, November 17, 2017.

BlackRock warns that plausible growth in electric vehicle use “could trigger a slide in demand for traditional cars and gasoline — much quicker than markets may expect.”²³

Even independent of the shifting share of energy produced by renewable sources, fossil fuels will suffer from the steadily declining energy intensity of the world economy. As technology advances across the board, the world needs less and less energy relative to production. This trend can be seen in countries at every income level, as shown in **figure 10**. Energy intensity of the global economy decreased by 40 percent between 1990 and 2015. Diminishing relative demand for any energy whatsoever casts yet more doubt on the potential for fossil fuels to rebound financially. Overall, observable policy, economic, and technological trends have aligned to extend the current financial decline of fossil fuels into the foreseeable future.

Figure 10. Declining energy intensity of global production²⁴



²³ Edkins, Michelle, et al. “Adapting portfolios to climate change: Implications and strategies for all investors.” BlackRock Investment Institute, September 2016.

²⁴ Roser, Max, and Hannah Ritchie. “Energy.” Our World in Data, University of Oxford Global Change Data Lab, July 2018.

The Academic Literature on Divestment and Portfolio Performance

It is useful to consult the findings of academic studies regarding the impact of divestment on returns. In evaluating whether divestment would harm the returns of AU's endowment, the 2014 ACSRI report analysed the academic literature as it existed at that time. Those studies found no discernible negative impact of socially responsible investment upon returns, but the ACSRI report noted that there was a deficit of studies specifically examining fossil fuel divestment at that time, given that divestment was a relatively new phenomenon.

Now, however, there is high-quality scholarship specifically dedicated to the implications of fossil fuel divestment. One 2018 study in the journal *Ecological Economics* compared the performance of a broadly representative investment portfolio to the performance of an identical portfolio without fossil fuel investments, tracking performance over the period from 1927 to 2016.²⁵ The study found that “fossil fuel divestment does not seem to impair portfolio performance. These findings can be explained by the fact that, so far, fossil fuel company stocks do not outperform other stocks on a risk-adjusted basis and provide relatively limited diversification benefits.” Simply put, a portfolio with fossil fuels does not do better than one without fossil fuels.

A 2019 study in the *North American Journal of Economics and Finance* compared the performance of a fossil-free portfolio to that of the the S&P 500 benchmark and an all-fossil portfolio for the period 2010-2018, finding that “the low-carbon portfolio typically earns a slightly higher rate of return than the overall market, due to the poor performance of the fossil fuel industry. These findings suggest that in the case of fossil fuels divestment, given the timeline of the movement, socially responsible investing has not been costly in terms of forgoing market returns.”²⁶

Another 2018 study, published in the *Global Finance Journal*, compared the performance of three hypothetical portfolios based on S&P 500 industry data: one portfolio with fossil fuel investments, one portfolio that divests from fossil fuels and reinvests in clean energy, and a third portfolio with no investments in fossil or clean energy.²⁷ “Using a range of measures,” this study finds that “portfolios that divest from fossil fuels and utilities and invest in clean energy perform better than those with fossil fuels and utilities,” also finding that “risk-averse investors would be willing to pay a fee to make this switch, even when trading costs are included.”

²⁵ Trinks, Arjan, et al. “Fossil Fuel Divestment and Portfolio Performance.” *Ecological Economics* 146 (2018).

²⁶ Halcoussis, Dennis, and Anton Lowenberg. “The effects of the fossil fuel divestment campaign on stock returns.” *North American Journal of Economics and Finance* 47 (2019).

²⁷ Henriques, Irene, and Perry Sadorsky. “Investor implications of divesting from fossil fuels.” *Global Finance Journal* 38 (2018).

A 2019 study in *Organization & Environment* found that divestment strategies entailed higher risk-adjusted returns than benchmark, concluding that “divestment is not only an ethical investment approach but also that it is able to address financial risks caused by climate change and, at the same time, is able to reduce the carbon exposure of investment portfolios.”²⁸

A 2016 research report from the University of Groningen in the Netherlands analysed the risk-adjusted returns of investments in fossil fuels compared to other industries, finding that “divesting from fossil fuels does not have a statistically significant impact on overall portfolio performance, and only a very marginal impact on the utility derived from such portfolios. The policy implication is that investors can divest from fossil fuels without significantly hurting their financial performance.”²⁹

These findings are in line with the broader literature on socially responsible investing (SRI) in general. In 2014, the ACSRI report cited a 2007 UN literature review of 30 studies, almost all of which found a positive or neutral effect of SRI on performance. This trend has held in studies since then.³⁰

Climate Change as Financial Risk

In addition to its myriad social, ecological, and other effects, climate change will leave a marked impact on the global economy. The outcomes of climate change will be necessary to consider when managing investments. As BlackRock stated in 2016, “all investors should incorporate climate change awareness into their investment processes.”

Nowhere are the financial risks of climate change more pronounced than with fossil fuel investments. In a report examining the financial risks of climate change, Mercer estimates that average annual returns on the coal sub-sector will be reduced between 18 and 74 percent by 2050.³¹ Average oil returns were estimated to fall by up to 63 percent. The bottom line is that fossil investments entail serious risk.

Fossil fuel investment risks rise from a number of sources. One such source is policy. Previously in this report, we discussed initiatives by governments around the world to reduce greenhouse gas emissions. The governments of the G7, for instance, have committed to ending fossil fuel subsidies by 2025 and eliminating

²⁸ Hunt, Chelsie, and Olaf Webster. “Fossil Fuel Divestment Strategies: Financial and Carbon-Related Consequences.” *Organization & Environment* 32, no. 1 (2019).

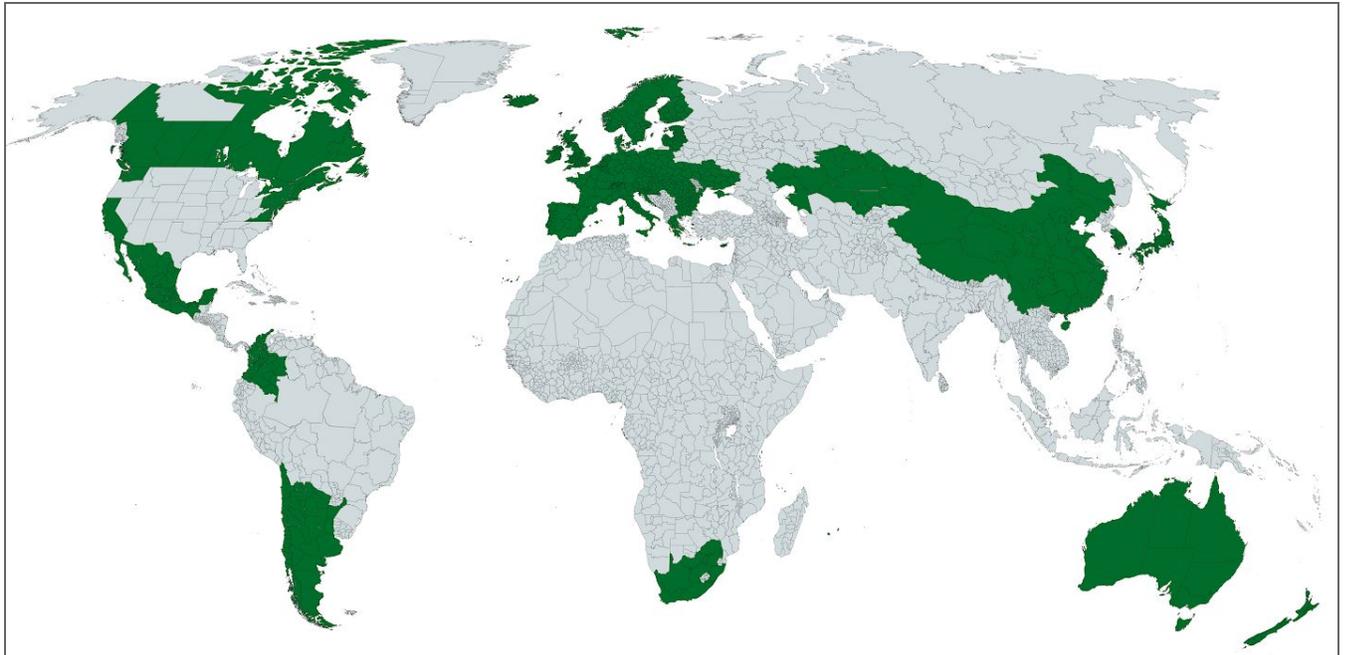
²⁹ Plantinga, Auka, and Bert Scholtens (2016). “The financial impact of divestment from fossil fuels.” Groningen: University of Groningen, SOM research school, p. 1-47, 47 p. (SOM Research Reports; no. 16005-EEF).

³⁰ See, for example: Lobe, Sebastian. “Vice versus virtue investing around the world.” *Review of Management Science* 10 (2016); Humphrey, Jacquelyn, and David Tan. “Does it Really Hurt to be Responsible?.” *Journal of Business Ethics* 122 (2014); Revelli, Christophe. “Financial performance of socially responsible investing (SRI): what have we learned? A meta-analysis.” *Business Ethics: a European Review* 24, no. 2 (2015).

³¹ “Trillion Dollar Transformation (risk assessment companion report).” Mercer, October 2016.

fossil fuel use altogether no later than 2100.³² Globally, 46 national and 28 subnational jurisdictions have implemented a carbon pricing scheme or scheduled one for implementation, including China, the European Union, California, Japan, and the Eastern Seaboard states from Virginia to Maine.³³ Together, these jurisdictions represent approximately two-thirds of global GDP.³⁴ These policies will put immense price pressure on fossil fuels in the face of ever cheaper renewables.

Figure 11. Jurisdictions with implemented or planned carbon price³¹



Policy risk is especially relevant from an investment standpoint because it is relatively unpredictable. The character of government action shifts with political trends, and events in one country can impact energy regulation in another around the world. For instance, the 2011 earthquake in Japan prompted Germany to reduce its own nuclear energy.³⁵ As climate change intensifies, so will the regulatory risk to fossil fuel investments.

Another source of risk to fossil fuel investments is evolving technology. Technological innovation in the energy industry can abruptly and rapidly undermine the success of fossil fuels. Forecasts of the amount of

³² Karl Mathiesen. “G7 nations pledge to end fossil fuel subsidies by 2025.” *The Guardian*, May 27, 2016; “G7 leaders agree to phase out fossil fuel use by end of century.” *Carbon Brief*, June 9, 2015.

³³ “State and Trends of Carbon Pricing 2019.” *World Bank*, June 2019.

³⁴ *International Monetary Fund*, 2019; “Gross Domestic Product by State, Fourth Quarter and Annual 2018.” *US Bureau of Economic Analysis*.

³⁵ Edkins et al.

time renewables will require to overtake fossil fuels have shrunk by decades in recent years.³⁶ Goldman Sachs estimates that wind and solar power could grow as much over a five-year period as gas power did during the shale boom.³⁷ The Department of Energy predicts that increased use of LED lighting will reduce electricity consumption for lighting by 40 percent between 2013 and 2030.³⁸ Because no one can know what technological development will emerge when, the future of fossil fuels is highly uncertain.

Finally, in light of these regulatory and technological pressures, fossil fuels risk becoming “stranded assets.” Assets become stranded when they are no longer usable, or when the cost of using them exceeds the returns.³⁹ Stranded assets are thus not properly assets, but liabilities. The reserves and physical capital of fossil fuel firms are increasingly likely to become stranded as the world moves away from fossil fuel. A 2015 report from Citigroup estimates that \$100 trillion of fossil fuel assets are already stranded.⁴⁰ Another report from HSBC warns that “stranding risks will become increasingly acute as efficiency gains hit demand and technology drivers increase supply and reduce demand.”⁴¹ With fossil investments already in decline, the risk of stranded assets threatens to let the bottom fall out of these risky holdings.

The Rise of Fossil-free Investment

The emergence of socially responsible investing in the context of carbon is fairly new. In AU’s case, according to the ACSRI report, 50 percent of the university’s fossil fuel exposure, at least in 2014, was in separately managed accounts and the Real Assets fund category, which alone accounted for 39 percent of AU’s carbon exposure despite consisting of only 5 percent of the endowment. In 2014, ACSRI decided that a prudent method of carrying out this process would be to “first [reduce] exposure in Real Assets and separately managed funds, and then [address] other commingled funds as successful alternative investment vehicles become available over time.” It was clear that divestment options at the time were limited, especially with respect to sustainably oriented mutual funds and ETFs.

In other words, the availability of alternative investments was listed as a factor constraining the implementation of divestment. The ACSRI report makes it clear that “immediate divestment and reinvestment might not be feasible with commingled accounts given the limited quantity of appropriate market alternatives.”

³⁶ *Ibid.*

³⁷ Bingham, Derek, et al. “The Low Carbon Economy: GS SUSTAIN equity investor’s guide to a low carbon world, 2015-25.” Goldman Sachs, November 2015.

³⁸ “Energy Savings Forecast of Solid-State Lighting in General Illumination Applications.” US Department of Energy, August 2014.

³⁹ Edkins et al.

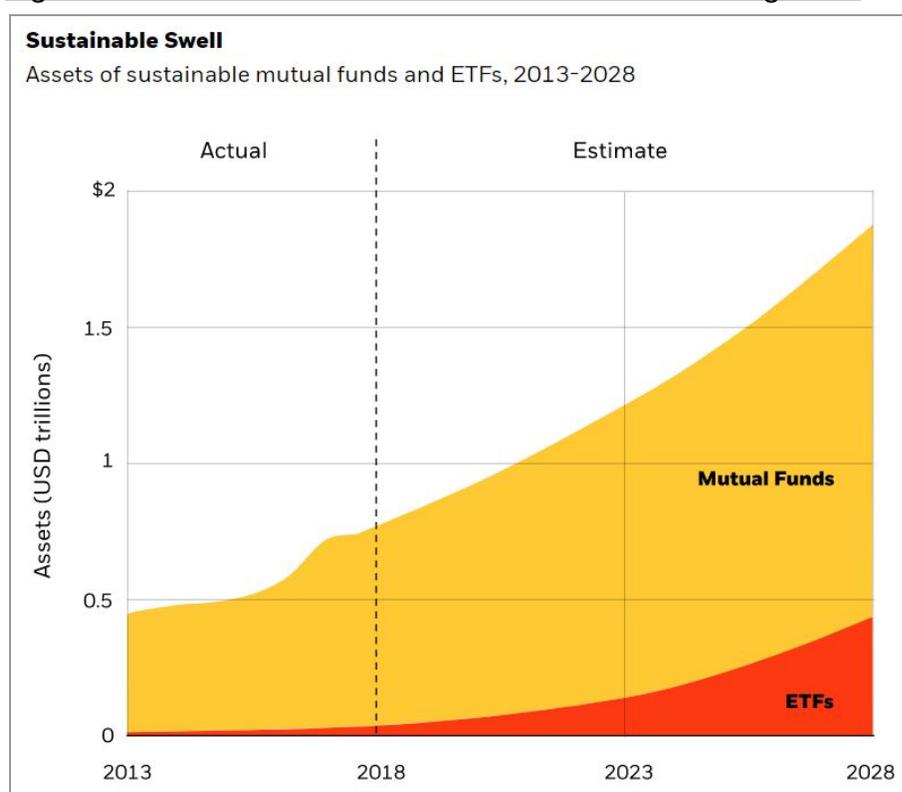
⁴⁰ Channell, Jason, et al. “Energy Darwinism II: Why a Low Carbon Future Doesn’t Have to Cost the Earth.” Citigroup, August 2015.

⁴¹ Paun, Ashin, et al. “Stranded assets: what next?.” HSBC Global Research, April 2015.

A key purpose in our compiling of this report is to express that post-2014 developments have come out on the side of SRI, and that the Board should reconsider its position given new circumstances that have arisen in this arena, as the growth of the fossil-free investing sphere has increased.

This growth, while only recently having seen its light in the mainstream, is not new. Assets managed according to SRI principles grew from \$600 billion in 1995 to \$3.75 trillion in 2012.⁴² That figure has since increased to \$6.5 trillion by 2018.⁴³ SRI is a growing strategy that has blossomed in the last few years, showing no signs of stopping as firms are adjusting their outlooks with the changing attitudes toward the role and responsibility of the investor.⁴⁴ **Figure 12** provides a projection from BlackRock of the swell, past and future, of mutual funds and ETFs that adhere to socially responsible principles of environmental social corporate governance (ESG).⁴⁵ Recent years have seen a proliferation of fossil-free funds, from such reputable institutions as BlackRock, Morgan Stanley, and T. Rowe Price.⁴⁶

Figure 12. BlackRock forecast of fossil-free investment growth



⁴² Marlowe, Justin. “Socially Responsible Investing and Public Pension Fund Performance.” *Public Performance & Management Review*, 38, no. 2 (2014).

⁴³ Stalter, Kate. “Socially Responsible Investing Delivers.” *US News & World Report*, June 7, 2018.

⁴⁴ Madsbjerg, Adam. “The State of Socially Responsible Investing.” *Harvard Business Review*, January 7, 2019.

⁴⁵ “Sustainable Investing.” BlackRock online.

⁴⁶ Fossilfreefunds.org

One potential concern regarding ESG funds concerns diversification. Negative screens limit the universe of investment options, and thereby potentially lower the ability of fossil-free funds to diversify. This hypothetically could make fossil-free strategies more volatile and less likely to make competitive returns. But both our research and academic scholarship suggest otherwise. Regarding volatility, refer back to **figures 6 and 7**, which show fossil-free indexes achieving essentially identical volatility as their fossil-exposed counterparts.

Perhaps the most influential research in this arena was released by financial services firm Morningstar, Inc., who examined SRI from the active fund manager's perspective, using risk-adjusted returns. They concluded that not only were higher-performing stocks positively aligned with greater ESG scores, but that stocks with increased ESG features were statistically less volatile.⁴⁷ Furthermore, their ultimate conclusions associated more sustainably oriented companies with factors like "lower cost of capital, better operational performance and better stock price appreciation."⁴⁸

Overall, the expansion of fossil free investing since 2014 suggest that it would be much less technically arduous to divest now than it was then. These changes further amplify calls for a reconsideration of divestment.

Cases of Major Institutional Divestment

Another factor suggesting the decreasing technical difficulty of are the many major institutional actors that have divestment in recent years. To some degree, fossil fuel divestment was new and unknown in 2014. However, the movement has now entered the mainstream, and major players are engaging. Overall, the number of divested institutions has grown more than sixfold since 2014, totalling more than 1,100.⁴⁹

The University of California system, the largest in the United States, committed in October of 2019 to rid its \$13.7 billion endowment and \$70 billion pension fund of carbon investments. Crucially, the UC system divested both direct and indirect investments across all asset classes.⁵⁰ Its investment managers report that UC's motivation for doing so was its purely fiduciary.⁵¹ The lagging of oil prices and the energy sector was a significant factor at the S&P 500's close of fiscal year 2018 in the decision of the Norwegian government's central bank to divest its \$1.1 trillion sovereign wealth fund, one of the largest portfolios in history, away from oil explorers and producers.

⁴⁷ De, Indrani and Clayman, Michelle, *The Benefits of Socially Responsible Investing: An Active Manager's Perspective* (July 9, 2014). *Journal of Investing*, Forthcoming. Available at SSRN: <https://ssrn.com/abstract=2464204>

⁴⁸ *Ibid*; Stalter.

⁴⁹ Nauman, Billy. "Sharp rise in number of investors dumping fossil fuel stocks." *Financial Times*, September 9, 2019.

⁵⁰ Williams, Emily. "The University of California Finally Has Divested From Fossil Fuels." *The Nation*, October 8, 2019.

⁵¹ Bachher, Jagdeep Singh. "UC investments are going fossil free. But not exactly for the reasons you may think." *LA Times*, September 17, 2019.

LEGAL CONSIDERATIONS

In considering and ultimately rejecting divestment in 2014, the Board paid great attention to its fiduciary responsibilities as established by relevant law. Jeffrey Sine’s memo explaining the Board’s rejection of divestment cited the District of Columbia Uniform Prudent Management of Institutional Assets Act, concluding that, “it was clear that the DC law surpassed the relevance of other considerations.”

There are several specific fiduciary duties, such as the duty of loyalty, duty to diversify, and duty of impartiality.⁵² The Board’s 2014 rejection was grounded mainly in the duty of loyalty. That duty and relevant analysis from AU’s general counsel are discussed earlier in this report. In this section, we will discuss how divestment interacts with the Board’s fiduciary duty to monitor. Under the duty to monitor, trustees are required to continuously ensure that their investment decisions remain in the best interest of their institution. As the Supreme Court has explained: “Under trust law, a trustee has a continuing duty to monitor trust investments and remove imprudent ones. This continuing duty exists separate and apart from the trustee’s duty to exercise prudence in selecting investments at the outset.”⁵³

With respect to divestment, the duty to monitor may be triggered by the evolving performance and future outlook of fossil investments. This report discusses at great lengths the worsening conditions of such investments. If all the facts we present accurately represent the state of AU’s fossil fuel investments, that would suggest that AU’s continuous holding of those investments is imprudent. In that case, the duty to monitor would require the Board to explicitly reconsider divestment. The duty to monitor requires trustees to “systematically consider all the investments of the trust at regular intervals.”⁵⁴

The Center for International Environmental Law reports that trustees may face legal liability due to breach of the duty to monitor if fossil fuel investments do not deliver returns justified by their risk in the face of climate change.⁵⁵ Student-led divestment lawsuits have historically failed on the grounds of standing.⁵⁶ However, American University Washington College of Law professor Sarah Kusiak has argued for courts to recognize student standing in cases regarding breach of fiduciary duty by private university trustees.⁵⁷ Writing in the *American University Law Review*, Kusiak argues that the Supreme Court precedent of *Stern v. Lucy Webb Hayes National Training School* would allow fiduciary breach suits to be brought by students.

⁵² Feit, Steven. “Trillion Dollar Transformation: Fiduciary Duty, Divestment, and Fossil Fuels in an Era of Climate Risk.” Center for International Environmental Law, December 2016.

⁵³ *Tibbles v. Edison International*, 575 US ____ (2015).

⁵⁴ Bogert, George, et al. *The Law of Trusts and Trustees*, 3rd edition (St. Paul, West Group, 2009).

⁵⁵ Feit.

⁵⁶ Ellement, John. “Harvard divestment lawsuit fails a second time.” *Boston Globe*, October 6, 2016.

⁵⁷ Kusiak, Sarah. “Case for A.U. (Accountable Universities): Enforcing University Administrator Fiduciary Duties through Student Derivative Suits.” *American University Law Review* 56, no. 1 (2006).

SOCIAL RESPONSIBILITY AND AU'S IDENTITY

After cataloguing the data — the details of AU's investments, the rise and fall of various investment funds, the pace of advancements in clean energy — we arrive at the question of why. Why should American University divest from fossil fuels?

Having hopefully provided evidence that divestment is compatible with AU's fiduciary duty, we may now indulge in answering this question. AU has long presented itself in accordance with a certain identity. Our university's identity is centered on not just knowing things about the world, but doing something in the world. AU publicly strives to “turn ideas into action and action into service.” The University, expressing what it believes all members of the AU community have in common, calls those community members “changemakers.” AU's institutional identity is based on making the world better.

This strive for change can be seen in specific episodes across the University's history. Franklin Roosevelt said of AU that “among the universities of the land ... you have a great opportunity for initiative, for constructive thinking, for practical idealism, and for national service.”⁵⁸ AU's institutional identity was present when the Washington College of Law was founded by barrier-breaking women, the first law school in the United States to graduate an all-female class.⁵⁹ AU's institutional identity is present in our current graduates, 40 percent of whom go to work for non-profits or in government service.⁶⁰ And AU's institutional identity was present in the two previous times that the Board has used divestment to take a stand for what is right — divesting in 1997 from holdings in Sudan and in 2006 from holdings in Burma, both times motivated to stand up for human rights.⁶¹

That is what divestment is about. AU excluding fossil fuels from its moderately sized endowment will not have any noticeable effect on the finances of fossil fuel companies. AU's divestment will not cause ExxonMobil to go out of business or pay for the world to adopt renewable energy. Rather, divestment is about us taking a stance as a civil society actor. Confronting climate change will require mobilization across every facet of society. If we avoid the environmental crises we are currently faced with, it will be one of the most impressive feats of human achievements in history. Change on that scale requires actors in positions of influence to contribute to its momentum. AU, as a prominent national university, is in a position to advance the politics necessary for the current climate moment. Because we can, as demonstrated in this report, we must.

⁵⁸ AU History, american.edu.

⁵⁹ WCL History, wcl.american.edu.

⁶⁰ “We Know Success: where AU grads land.” american.edu.

⁶¹ ACSRI report, p. 3.

WHAT COULD DIVESTMENT LOOK LIKE?

Given the complexity entailed by AU's potential divestment, it should be recognized that divestment could be pursued over a number of paths. In one sense, AU has already begun to divest through its decision to impose a negative screen for fossil fuels on actively managed investments, as well as its replacement of some fossil-exposed funds in favor of fossil-free alternatives. Despite refraining from public announcements of partial divestment, unlike some of its peers, AU is already part of the way there.

One consideration entailed by divestment is the definition of fossil fuel firms. Many divestment advocates and financial analysts use the Carbon Underground 200, a public list of the 100 largest coal firms and 100 largest oil and gas firms, as determined by the emissions potential of their reserves.⁶² We find this to be a suitable definition for divestment.

It should also be noted that AU's divestment would certainly occur over an extended period of time. For some fossil-exposed assets, AU has already obligated itself to own them for a certain length. The ability to divest from other assets depends on the availability of suitable alternatives for reinvestment. Those alternatives do exist. The endowment includes one fund indexed to the US stock market, excluding fossil fuels. This fund, announced by the Board after its 2014 decision on divestment, was previously referred to as the "green investment fund." The Board further grew its explicitly fossil-free investments in November 2019, by selling two funds with combined fossil exposure of \$6.9 million to reinvest in a fossil-free fund.⁶³

For these reasons, the Board has a number of options to pursue in the divestment space. In addition to publicly announcing its current negative screen on direct fossil investments, the Board could commit first to divesting those assets for which divestment would not be associated with excessive management costs, as it did in November 2019. The strategy for divesting commingled funds could be developed gradually.

What is most important are not the technical details of how AU's divestment is executed. As a civil society actor, AU's public commitment to divest would add to the developing social consensus against fossil fuels, which will be required to achieve the mobilization necessary to confront climate change. It is good that AU has made partial progress toward divestment. However, by keeping this progress private, AU is neglecting the ability to use its position in society to push for much needed change.

⁶² "The Carbon Underground 200." Fossfreefunds.org.

⁶³ Reported to the Financial Research Office by AU CFO Doug Kudravetz in January 2020

CONCLUSION

Climate change is a defining global issue of our time. Those individuals and organizations who can act to mitigate it face a moral obligation to do so. It is on this basis that students have long tried to convince American University to abandon its investments in fossil fuels. Students successfully convinced the Board to officially consider divestment in 2014. The Board, however, determined that divestment would pose management costs and lost returns too great to be permissible under their fiduciary responsibilities.

This report is based on a recognition that things have changed in 2014. Economic, technological, and policy trends over the past several years have altered the calculus on which the Board's 2014 decision depends. In this report, we have documented the financial decline of fossil fuel investments. Relative to the rest of the economy, fossil investments have shown consistently poor performance. Therefore, investment indices without fossil fuels perform better than indices with fossil fuels.

And this decline is not a fleeting moment. We have presented evidence that this trend is the new normal. As the world moves away from fossil fuels in the face of climate change, the business of selling fossil fuels will be fundamentally challenged. Fossil fuels will be constricted by climate regulation and undermined by the rise of clean energy. And overall, the energy demanded by economies will continue its long running decline. The future is not bright for fossil fuels.

For this reason, fossil fuels are growing in risk and diminishing in reward. When they can, prudent investors must eliminate such investments. The Board's fiduciary duty to monitor commands them to assess whether this is currently the case for AU. Although management costs may have prevented such action in 2014, the financial sphere has changed in the past six years. Thousands of institutions, including some of the largest universities and governmental funds in the world, have divested. The amount and commonality of divestment has spiked since 2014. Divestment is now mainstream.

For these reasons, we believe that AU should use its position of influence in society to advance the politics of climate by officially and concretely disassociating our institution from fossil fuels. In that, we remain where we were in 2014. The campaign resulting in the Board's last official consideration of divestment took several years, and it is unlikely that any future decision will be an effortless accomplishment either. Student Government will always stand eager to work with and represent students seeking to improve this university.