July 2018

Brief Information about Divestment

What is Fossil Fuel Divestment?

- Divestment is the opposite of investment – it is the removal of your investment capital from stocks, bonds or funds. The global movement for fossil fuel divestment is asking institutions to move their money out of oil, coal and gas companies for both moral and financial reasons.
- **Overview of divestment:** The Guardian: A beginners guide to fossil fuel divestment

Arguments for Divestment from Fossil Fuels

- Moral argument:
    - Scientists say 75% of known fossil fuel reserves must stay in the ground to prevent the 2°C rise in global temperature that would result in catastrophic climate change.
    - Climate change is considered the greatest threat to human health in the 21st century, the biggest threat to the global economy and a significant national security threat.
    - Fossil fuel companies have known that fossil fuels cause climate change since 1977 and have since actively cast doubt on climate science, misled the public and blocked climate policy.
- Financial argument:
    - The carbon bubble is a hypothesized bubble in the valuation of companies dependent on fossil-fuel-based energy production, because the true costs of carbon dioxide in intensifying global warming are not yet taken into account in a company's stock market valuation.
    - If we are to stay well below 2°C, as the Paris Agreement requires, more than 75% of fossil fuel reserves have to stay in the ground. Fossil-fuel companies are therefore facing the reality of stranded assets and $33 trillion lost revenue. A variety of factors could lead to assets becoming stranded. These include: new government regulations that limit the use of fossil fuels (like carbon pricing); a change in demand (for example, a shift towards renewable energy because of lower energy costs), or even legal action.
    - **Further information:** Go Fossil Free: The Finance of Divestment
- **More information at** DivestInvest

Who Is Divesting from Fossil Fuels?

In total, over $6 trillion has been divested by 895 institutions. See the full list of institutions that have divested here. In Canada, institutions that have divested include the Canadian Medical Association, Laval University and the Students' Society of McGill University, as well as many faith groups.

Over the past year, there have been several groundbreaking announcements of large institutions including banks and governments divesting from fossil fuels. These institutions often cite financial reasons for divesting. Notable international divestments include:

- **World Bank:** The World Bank will cease financing upstream oil and gas after 2019.
- **HSBC:** Europe's largest bank HSBC announced it will stop funding new coal power plants, oil sands and arctic drilling in high income countries after 2019.
- **BNP Paribas:** BNP Paribas is France's largest bank. They pledged to stop financing shale and oil sands projects.
- **ING:** Dutch multinational bank ING announced it will reduce the company's exposure to coal power generation down to close to zero by 2025. ING also withdrew its loan for the Dakota Access pipeline.
- **AXA:** Axa is a global financial services company. It has divested from 25 oil sands companies as well as from three major pipelines needed to deliver their oil to market. It also divested €2.4 billion from coal-related companies and has decided to invest €12 billion in green investments by 2020.
- **Ireland:** In July 2018, Ireland became the world's first country to sell off its investments in fossil fuel companies. The state's €8bn national investment fund will be required to sell all investments in coal, oil, gas and peat "as soon as is practicable", which is expected to mean within five years.
- **Norway:** Norway's sovereign wealth fund has divested from some coal companies and is considering divesting from oil and gas companies. A letter from the bank to the Norwegian Finance Ministry in 2017 stated that the fund had lost faith in international petroleum companies and suggested divestment from oil and gas.
- **New York City:** In January 2018, New York City announced the decision to divest the $200 billion pension fund from fossil fuels, while simultaneously filing lawsuits against five major fossil fuel companies for their roles in fuelling climate change.
- **Catholic churches:** A group of 40 Catholic institutions announced in October, 2017 that they were divesting from fossil fuel companies and investing in renewable energy. The commitment is part of a response to the COP21 statement of Catholic Bishops from all continents.

Why Should the AMS Divest?

- [AMS Policy #E-2: UBC Divestment from Fossil Fuels] (note that there is a motion to pass an updated version of this policy within the new Environment and Climate Change Policy at this week's council meeting)
    - "1) Be it resolved that the AMS officially adopt the stance that UBC should take all possible measures to forgo future investments in fossil fuel companies and divest from all existing fossil fuel holdings within five years; and 2) Be it further resolved that the Office of the VP Academic and University Affairs take all additional measures needed to ensure that this policy is fulfilled, included the measures recommended in the aforementioned briefing note."
- Briefing Note: UBC and Divestment from Fossil Fuels
    - "It is recommended that the AMS VP Academic and University Affairs consult with the AMS Executive Committee and Director of Finance to determine the feasibility and ramifications of creating an internal policy committing the AMS to refraining from investment in fossil fuel holdings."
- AMS Student Driven Sustainability Strategy
    - Vision: "The AMS recognizes the ecological crisis humanity faces and the special responsibility universities and university students have in finding and implementing solutions. We acknowledge that the impacts of climate change are disproportionately felt by the more marginalised communities all over the world, both on a local and global level, and we have an obligation as part of the privileged UBC community to be ambitious in our goals to build a sustainable and just future for all."
    - The strategy includes AMS fossil fuel divestment within the Climate and Biodiversity section.

How Does Divesting from Fossil Fuels Affect Risk and Returns?

Numerous reports have shown that fossil free portfolios have equal or better returns compared to portfolios with fossil fuels and similar risk.

Genus: Fossil Fuel Divestment Report

The Genus Fossil Free CanGlobe Equity Fund has beaten its benchmark on an annualized basis for the period from May 31, 2013 to December 31, 2016:

- The Genus Fossil Free CanGlobe Equity Fund (35% Canada, 65% Global) generated a 16.00% annualized return;
- The equity fund's benchmark, against which performance is measured, generated 13.31% for the three years ended December 31, 2016.

FIGURE 1: GENUS FOSSIL FREE CANGLOBE EQUITY
CUMULATIVE RETURNS IN IN CANADIAN DOLLARS, GROSS OF FEES
May 31, 2013 to December 31, 2016

Source: Genus Investment Research

In a long-term study involving a 20-year backtest, Genus found that fossil free optimized funds consistently beat the benchmark. In order to produce an optimize fund, investors used the Fossil Free Naïve strategy and performed a quarterly optimization to minimize the tracking error of the portfolio against the benchmark. Genus defines "fossil free" as excluding the Energy, Utilities, and Transportation industries from the respective indices tabled in Figure 2.

FIGURE 2: LONG-TERM FOSSIL FREE BACKTEST

DECEMBER 31, 1996 – JUNE 30, 2016

	Canada[1]	United States[2]	International[3]	Global[4]	Benchmark[5]
Annualized Return					
Index (Benchmark)	6.95%	7.22%	4.69%	6.03%	6.60%
Fossil Free Naïve	6.63%	7.17%	4.56%	5.90%	6.38%
Fossil Free Optimized	7.42%	7.44%	4.97%	6.33%	7.00%
Tracking Error (Active Risk)					
Fossil Free Naïve	4.05%	1.76%	1.55%	1.69%	2.45%
Fossil Free Optimized	3.62%	1.56%	1.14%	1.26%	1.86%

MSCI ACWI EX Fossil Fuels Index

ANNUAL PERFORMANCE (%)

Year	MSCI ACWI ex Fossil Fuels	MSCI ACWI
2017	14.59	13.84
2016	27.84	29.40
2015	5.82	3.84
2014	13.23	11.22
2013	22.68	21.15
2012	13.47	11.67
2011	-6.32	-6.17

INDEX PERFORMANCE — GROSS RETURNS (%) (JUN 29, 2018)

					ANNUALIZED			
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since Nov 30, 2010
MSCI ACWI ex Fossil Fuels	0.19	6.41	8.50	1.88	15.42	13.72	na	12.72
MSCI ACWI	0.28	7.01	9.51	2.33	15.31	13.09	na	11.99

Aperio Group: Building a Carbon-Free Equity Portfolio

This study found that fossil free index consistently had higher returns than the benchmark.
The benchmarks were as follows:

- Global: MSCI ACWI
- US: Russell 3000
- Australia: S&P/ASX 200
- Canada: S&P/TSX Composite

Fossil free portfolios were created by excluding from the universe the Oil, Gas and Consumable Fuels industry from the broadest available index ("Tracking Portfolios").

Table 3: Summary Statistics*								
	Global		US		Australia		Canada	
	1/01/97–12/31/13		1/01/88–12/31/13		1/01/02–12/31/13		1/01/00–12/31/13	
	Carbon-Free	Index	Carbon-Free	Index	Carbon-Free	Index	Carbon-Free	Index
Annualized Returns (Geometric,%)	6.84	6.53	10.68	10.63	14.17	13.99	9.23	8.38
Annual Standard Deviation (%)	16.65	16.55	14.94	14.81	22.75	22.79	21.15	21.14

Table 5: Average Annualized 10-Year Return Difference				
Market	Time Period	Average Rolling 10-Year Geometric Return Difference	Percentage of Periods Higher than the Index	Percentage of Periods Lower than the Index
Global	Jan. 1, 1997–Dec. 31, 2013	0.36%	100%	0%
US	Jan. 1, 1988–Dec. 31, 2013	0.10%	68%	32%
Australia	Jan. 1, 2002–Dec. 31, 2013	0.18%	100%	0%
Canada	Jan. 1, 2000–Dec. 31, 2013	1.04%	100%	0%

Table 2: Market Indices			
Market	Time Period	Tracking Error	Average Fraction of Market Excluded
Global	Jan. 1, 1997–Dec. 31, 2013	0.75%	8.00%
US	Jan. 1, 1988–Dec. 31, 2013	0.77%	6.80%
Australia	Jan. 1, 2002–Dec. 31, 2013	0.81%	5.10%
Canada	Jan. 1, 2000–Dec. 31, 2013	2.91%	20.60%

Source: Aperio Group LLC. Past performance is not a guarantee of future returns. Please refer to important disclosures at the end of this paper.

To put the tracking errors of the carbon-free portfolios into perspective, consider the active risk of 5% taken by the typical institutional investor.[11] That dwarfs the tracking errors of the carbon-free portfolios, even in Canada.

More information about risk and returns

- MSCI: Fossil Fuel Divestment - A Practical Introduction
- S&P 500 Fossil Fuel Free Index
- Sustainable Insight Capital Management: The Risks and Returns of Fossil Fuel Free Investing
- Divesting from Fossil Fuels: The Implications for Investment Portfolios

RBC PH&N (AMS's Investment Managers) fossil free options

- Fossil fuel divestment brief
- RBC Vision Fossil Fuel Free Global Equity Fund
- Fossil Fuel Free Analytical Framework
    - The intention of this Fund is to minimize the exposure to companies involved in extracting, processing, and transportation of fossil fuels. To do this RBC Vision Fossil Fuel Free Global Equity Fund uses two types of FFF screens to identify ineligible companies:
        - 1. The Fund will use an exclusion list based on the Carbon Underground 200. Any company included in the Carbon Underground 200 report is ineligible for the Fund. The Carbon Underground 200 report identifies the top 100 public coal companies globally and the top 100 public oil and gas companies globally, ranked by the potential carbon emissions content of their reported reserves. The Carbon Underground 200 list is maintained by the independent third-party provider Fossil Free Indexes LLC, and is revised quarterly.

        - 2. The Fund will also not invest in any issuers involved in extracting, processing, and transportation of coal, oil or natural gas.

More Resources

- Make a Clean Break: Your Guide to Fossil Fuel Free Investing (by 350.org, Green Century Funds and Trillium Asset Management)
- Pacific Institution for Climate Solutions: Fossil Fuel Divestment
- Canadian Centre for Policy Alternatives: Pension Funds and Fossil Fuels