

Homer Describing Big Oil: "Lung-Choking, Ocean-Poisoning, Species-Sickening Pitiless Scourge of Humanity"

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Preface

In 2010, at Cancun, nations of the world set 3.6 degrees F as the permissible increase in global temperature over the pre-industrial level. Beyond that was catastrophe. Since Cancun, the dangers of climate change have grown and become palpable in myriad ways with which you all are familiar. And, yet, nations have made little progress. In fact, having put the car in reverse, they are accelerating in the wrong direction. Thus, the IEA reports our current trend-line will take the planet by 2050 to 7 degrees F, twice the level set in Cancun. Carbon emissions increased by 1.5% per year from 1980 to 2000. But, then, that rate almost doubled to 2.5 % per year through 2012. And in 2013, emissions jumped 2.3% to record levels. The IEA recently reported that the cost to de-carbonize by 2050 was \$44 trillion, up from \$36 trillion just two years ago, and climbing. The cause? An increase in coal usage that exceeds the increase in renewables.

The planet has already warmed by 1.5 degrees F since the pre-industrial era. On our present trajectory, we will blow by the 3.6 degree F level, reaching as much as 10 degrees F above the pre-industrial era by 2100. By then, civilization and its current residence will have become unrecognizable.

So, the planet has a big problem. I'm here to argue that divestment from fossil fuel companies is an important strategy for fiduciaries of all types to pursue. Here's why.

Purpose of Divestment

The argument for divestment clusters around two ideas: financial and moral.

Financial Reasons - Here the argument is reduction of risk to your portfolio. The risks are many and growing. Consider a few:

The very serious, yet hardly recognized, risk from "stranded assets", in particular "unburnable carbon". Let me explain. To hold to the 3.5 degree goal, there is a limit on how much carbon can be emitted to 2050. It's called the Carbon Budget and its reckoned through science.

The level is 886 Gigatons of CO2 from 2000-2050. Subtracting what's been emitted to date since 2000 (121 Gt) leaves 565 Gt left to emit. But just reserves proven on the books of public and private companies equal 2795 Gt of potential emissions, meaning that proven reserves are about five times what nations can allow to be emitted to 2050, if we are to avoid planetary catastrophe. So the rest is at risk of being stranded -- unburnable - if nations have a Darwinian moment and act. As they must. If this happens, of course, it means current market prices for fossil fuel companies are hugely overvalued.

And consider the risk to the \$21 trillion of CAPEX by Big Oil that is planned for expenditure in the near term to develop unconventional oil projects.

And, the risk that, given the plummeting prices for solar and wind energy, oil prices will not remain high enough to profit from the sale of newly discovered reserves, which generally need at least \$95 per barrel to break even.

And, overall, the risks from multiple problems facing the fossil fuels complex, including faltering productivity, falling profits, poor economics, environmental disasters and increasing competition from power plants and automobiles running on free fuel.

There are growing risks of stranding in the grid power sector. Barclays recently down-graded high-grade corp. bonds across the entire US utility sector, citing the energy threat of solar power and storage. Baseload power sources like coal and nuclear are being replaced by renewables, and in time the grid will become obsolete. In Europe, growth in renewables was the primary reason that the top 20 utilities lost \$600 billion in market value over the past five years.

And I'm sure you know the losses in market value experienced by the coal industry over the past three years, down 61% against the S&P 500, up 47%. By the way, coal is the canary in the oil well, to coin a phrase.

Conventional oil peaked in 2005. Oil and gas production by Chevron, Exxon-Mobil and Shell declined over the past 5 years, even as they spent \$500 billion in CAPEX on new projects - that's shareholder wealth that will potentially vanish down very expensive holes drilled in the earth.

Despite the recent surging flows of tight oil and shale gas in the US, the country is waking up to the fact of the huge decline rates of the sources for these products.

Renewable energy supplies at least 23% of global electricity generation today. Its capacity doubled from 2000-2012. Solar is now growing at a 30% rate/year. And is rapidly becoming cost competitive with fossil fuels.

Finally, consider that government subsidies for fossil fuels are some \$600 billion per year, compared to just \$90 billion for clean energy -- a public perfidy whose days are numbered -- a global outrage that soon will end. As it must.

There's an old saw: How did you go bankrupt? "Two ways: slowly at first; then all at once." In financial markets today, too few consider climate change an investment risk at all. Too many of those who do imagine it to be merely a tail risk, remote and barely worth noting. But change in energy is coming at a gallop. It's happened before. Consider, not long ago, when we used whales for light; horses for power; coal for steam to drive locomotion; now coal again for electricity. We need to disentrall ourselves from old business models. And listen to the wise and well informed. Like Sheikh Yamani, Saudi Arabia's powerful Minister of Oil from 1962 to 1986. He famously said: "The Stone Age didn't end because we ran out of stones, and the age of oil won't end because we run out of oil."

Moral Imperative -this argument is particularly pertinent for public pension funds, so importantly affected with the public interest.

Given the Gargantuan existential risk of climate change to the planet, those in positions of leadership who fail to take reasonable steps to stop carbon emissions from rising become the moral equivalent of those seeking to deny the science and brush away the problem. As Galileo did by recanting to save his life. Divestment is a reasonable step for pension trustees to take.

What does divestment accomplish? It avoids the ugly picture of trustees seeking to profit from emissions of carbon through the sale and burning of fossil fuel reserves and especially through the massive use of shareholder funds to search for more fossil fuels to sell and burn. Such behavior violates the most basic norms of a civilized society.

I've tried to imagine how Homer, the great story-teller, would have described Big Oil. You'll have your own answer. Here's mine: "The lung-choking, ocean-poisoning, species-sickening pitiless scourge of humanity."

Divestment by any group, but particularly by thought leaders such as those responsible for public pension funds, helps to stigmatize the oil, gas and coal giants as repugnant social pariahs and rogue political forces bent on profit at whatever cost to the planet and its people. That is, the pitiless scourges of humanity.

Don't underestimate the power of being able to create pariahs. These companies fear stigmatization. It hurts in hiring, employee morale and motivation, shareholder satisfaction and equity valuations. And it hurts when leaders of these companies go home to face their children and grandchildren.

Do these companies deserve stigmatization? Consider, e.g., the Exxon-Mobil and Shell reports to shareholders on stranding. Despite each company's acceptance of the science, they smack their gauntlets across the collective face of humanity by asserting that no government restrictions will restrain them. Here, e.g., is E-M's statement:

"We are confident that none of our hydrocarbon reserves are now or will become stranded. ... Further, the company does not believe current investments in new reserves [which it intends to discover and develop in quantities at least equal to current proven reserves] are exposed to the risk of stranded assets, given the rising global need for energy..."

As the Carbon Tracker Initiative observes in its rebuttal to the Exxon-Mobil report, that company does not consider a low carbon scenario in its investment planning, which proceeds on a "business as usual" basis. Its projections are, without doubt, incompatible with meeting the 3.6 degree F goal. Studies show that the company's projections correspond with the IPCC's RCP 8.5 scenario, putting the planet on a pathway to about a 7 degree F increase from the pre-industrial era by 2050.

Divestment by leaders like you will help awaken us to the peril of inaction. Collectively, we are like the frog resting comfortably in a pot of cold water being heated to boiling. You can be among the first in the nation to shake this frog from the deadly comfort zone in which it rests.

Despite the success of the Peoples Climate March in New York City, even the most basic scientific arguments have not been settled. Consider, for example, in the NY Times of September 23, the comment of Freeman Dyson, distinguished and greatly admired theoretical physicist at the Institute for Advanced Study:

"What worries me is that many people, including scientists and politicians, believe a whole lot of dogmatic nonsense about climate change. The nonsense says that climate change is a terrible danger and that it is something we can do something about if we wanted to. The whole point is to scare people, and this has been done very successfully."

Dyson is wrong. Alas, not enough people have been scared. Too many are still slumbering frogs. Governments won't act until enough people -- call it a critical mass - have been scared by the

foreseeability of the dire consequences that science tells us will follow inaction to demand their Governments to act, thereby driving down demand for fossil fuels and driving up demand for non-fossil fuel alternatives such as renewables, nuclear and efficiency. In fact, foreseeability is the key and every one of us holds that key in our hands. When a critical mass of people accept the foreseeability of dire consequences from inaction as being inescapably certain, nations will act to avert catastrophe. By educating ourselves and others as to this matter, each of us can help achieve the necessary level of certainty.

Consider the tragedy of the Titanic. It is a metaphor for the surpassing vanity of mankind and the indifferent brutality of nature. As such it can speak to us about the looming threat of climate change.

On that night in April, 1912, hundreds of human beings consciously, and with deliberation, chose to die as a matter of honor in order to save women and children. Men of privilege, such as Isidor Straus and Benjamin Guggenheim, refused places on the lifeboats, choosing to wait in deckchairs for death to come. Of course, the immediacy of death, the certain foreseeability of the ship sinking, is what makes that case different from the perils of doing nothing about carbon.

Although the sinking of the Titanic is high drama, I don't believe it is any more fraught than the planetary threat we face today. It's just far more compressed. Two and a half hours to sink instead of 35 or so years to reach 7 degrees and even more to experience the full catastrophe. Humans are simply not well designed to contemplate, fear and act in anticipation of events - however terrifying - that are way down the road.

Somehow, despite the time-line, the resting frog -- our collective self - must be awakened.

Your Fiduciary Duty

As Trustees, you are fiduciaries charged with the duty of care. Here's how the American Law Institute's Restatement of Trusts describes that duty (in section 227):

"This standard requires the exercise of reasonable care, skill and caution, and is applied to investments not in isolation but in the context of the ... portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the [purposes of the pension]."

Based on an informed view of all climate change factors, including those I've just outlined, it is easy to conclude on the basis of financial considerations alone that divestment of fossil fuel company holdings is a permissible option. And the moral dimension makes this conclusion even more powerful.

Whether, at this time, divestment is compelled by the duty of care is a more difficult question to answer. Anticipatory divestment in recognition that, at some unknown and unknowable point down the road, markets will suddenly adjust equity prices downward to reflect swiftly changing prospects for fossil fuel companies, however wise as a prudent option today, is probably not yet compelled in the exercise of due care.

But here's the most important point: Whether your portfolio will under or outperform after divestment is unknowable. Looking back in time, results vary depending on the measuring period and assumptions about how proceeds are reinvested. But past is not prologue here. And, in any case, fiduciaries need not worry about short-term results. Anticipatory investment should be viewed as having unknown short-term consequences. In the long run, those results are unimportant. A decision to divest rests on the

claim that fossil fuel companies will prove to be bad investments over the long term and, therefore, with foresight that anticipates this result, should be removed from the pension fund before the strengthening and foreseeable likelihood of this result becomes commonplace in the market. As it did with coal. I hope that, very soon, you will make that decision.

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The Financial Case for Divestment of Fossil Fuel Companies by Endowment Fiduciaries

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1. Background. Rising temperatures around the globe are a reality, and so too is the primary cause: Energy-related CO2 emissions caused by human-beings. Long term energy analysis by the highly respected International Energy Agency (IEA) shows the world traveling down an unsustainable track. Very unsustainable. In 2012, CO2 emissions grew by 1.4 percent to a record high. Looking ahead, in its 'business as usual' scenario, the IEA shows energy-related CO2 emissions growing 1/3rd by 2035 and doubling by 2050, while global temperatures increase by up to 5.3 degrees Centigrade to 2100.

Recent disasters around the globe illustrate the growing problem with a warming planet: rising sea levels, changing rainfall patterns, more droughts, floods and heat waves, all adversely affecting ecosystems, food production and water resources. All costing immense sums of money. Consider, e. g., Hurricanes Sandy and Katrina; the wild fires and colossal floods in Colorado; the die-off of pine trees across the Rocky Mountains; the historic floods across the Midwest; deepening droughts in New Mexico, Texas and Oklahoma; and record heat waves in Alaska.

Unless large restrictions on carbon emissions are established around the globe, but particularly in the world's two top emitters, China and the US, scientists predict ocean level rises of three to six feet in this century, triggering massive evacuations. What's worse, we know scientists systematically understate the case -repeatedly discovering the globe's climate system is more, not less, sensitive to man-made assault, whose impacts are being experienced at ever-increasing rates.

This paper argues for divestment by fiduciaries of fossil fuel companies held in their endowments. It does so solely on financial grounds, expressed within a considered legal context, leaving for others to advance arguments on the basis of global urgency, morality, chartered purpose or other worthy grounds.

2. The Financial Case. The future prospects for fossil fuel companies are suffering, and in coming years, increasingly, will suffer from at least four rapidly evolving developments triggered by growing global awareness of the existential threat that climate change poses for the planet:

(a) Governmental restrictions on carbon release, leading to the stranding of carbon-bearing fossil fuel assets carried on the balance sheets of fossil fuel companies.

(b) Advances in alternative sources of energy for power, electricity and transportation, resulting in a lessening demand for coal, gas and oil.

(c) A rising tide of public action at the grass-roots level, including actions by stockholder groups, against fossil fuel companies, demanding such obvious steps as cessation of CAPEX on exploration and development of more fossil fuel.

(d) Growing reputational effects from the foregoing, turning fossil fuel companies into pariahs, with adverse consequences for hiring, employee morale and motivation, stockholder satisfaction and equity valuations.

(a) Stranded Assets. Persuasive findings and analysis by the Carbon Tracker Initiative and others indicate that, if action is not taken soon to curb carbon emissions, global temperatures will rise beyond levels where they can be reversed, with devastating consequences around the world. There is expert concurrence that the danger threshold is a rise of 2 degrees Centigrade from pre-industrial temperatures. Yet, from year to year, the world is still increasing carbon emissions rather than taking the necessary steps drastically to reduce them. Without swift action, we will blow past the 2 degree red line and perhaps reach increases of 3, 4 or even 5 degrees.

For fiduciaries, the planet's present condition and trajectory pose major, and growing, portfolio risks. Prudence requires that they be well informed about these risks and act with the requisite caution and care. According to widely accepted science, to hold at the 2 degree level, only 20 percent of the world's total proven fossil fuel reserves can be burned. The top 200 publicly listed oil, gas and mining companies carry on their balance sheets fossil fuels representing over 25 percent of those reserves. Assuming a pro-rata cut-back in reserves allowed to be burned, some 60-80 percent of the reserves of these 200 companies would be unburnable - meaning they are 'stranded assets' of vastly reduced value. Therefore, on the assumption that, in a Darwinian awakening, the world will rally to protect itself and all living things, by holding to the 2 degree level, investments in the 200 are severely overpriced in the market. Again, on that assumption, fiduciaries have a compelling reason on financial grounds alone to divest these holdings before the inevitable correction occurs. I'm certain any reputable investment manager, if directed by an endowment to accept that assumption, would agree with this conclusion.

Some will argue divestment unreasonable, given the world's dependence on fossil fuels, particularly oil and natural gas, and the need for a long transition period to replace them with non-carbon emitting sources of energy. All true. But, as reported by the Carbon Tracker Initiative, last year the top 200 allocated up to \$674 billion for finding and developing more fossil fuel reserves and new ways of extracting them. There is no good reason for this vast expenditure of stockholder wealth. It is wasted capital, an offense against stockholders in terms financial alone. It suffices as justification for a fiduciary to divest from any company so engaged.

Here's why, in a nutshell. For the period of 50 years (2000-2050), the allowable "Carbon Budget", if the planet is to stay below the 2 degree red line, is about 886 gigatons. One third of that amount has been burned so far. Therefore, only about 565 gigatons remain to be burned to 2050. The 200 fossil fuel companies (which exclude all Government-owned companies) already carry proven reserves of 745 gigatons on their balance sheets. If one adds in the Government-owned companies, the proven reserves climb to 2795 gigatons, far in excess of what the Carbon Budget would allow to be used.

If Governments act, most of these reserves become stranded and worthless. Of course, in this situation, CAPEX constitutes corporate waste, plain and simple. Indeed, a situation ripe for stockholder lawsuits.

Betting against the stranding risk materializing is arguably an irresponsible, hard-to-defend, position for a fiduciary, who will have to demonstrate a sound basis for doing so, something that seems hard to do.

By the same token, betting that this risk will be realized is not hard to defend as the inevitable consequence of rational, self-surviving acts by people and their governments around the world.

In summary, consider this brief paragraph as a summary of the basis on which a fiduciary elects to divest:

"Recognizing climate change as an existential threat to the planet, unique in human history, and both the compelling need to limit carbon emissions and the confidence we place in global leaders to achieve the necessary limits, the largest 200 fossil fuel companies are vastly overvalued in their trading markets and, therefore, continuing to hold investments in any of them exposes our endowment to material loss."

(b) Alternative Sources of Energy. The potential for solar and wind power to replace coal and gas for utility generation globally, experts believe, is a certainty. Only the timing (i.e. 30 to 70 years) is open to doubt and debate. Similarly, experts opine, replacing oil for transportation (by land) with electricity or fuel cells derived indirectly from electricity is also a certainty, with only the timing (i.e. 20 to 50 years) open to doubt and debate. And, on both these fronts, progress continues to accelerate, surprising even the more optimistic professional believers.

Due to these advances in the alternative energy revolution now underway, coal, tar sands and oil are increasingly likely to become stranded assets, regardless of whether and to what degree governments rally to the cause of containing climate change. The "canary in the coal mine" signaling this probability is, in fact, the coal industry itself.

On July 26, 2013, Zack's Industry Rank put the coal industry at 232 out of 259 industries in its industry classification. Any industry below 169 is given a negative outlook. Of course, a look at the 67 percent decline in the stock prices of pure play coal companies over the past two years would have confirmed the Zack finding.

China's accelerating drive to change its sources of energy is, alone, a major risk factor for current valuations of fossil fuel companies. Smog in its urban centers grows apace, creating a colossal problem. It is prompting a rapidly escalating response by the central government. For example, recently the government suddenly announced an increase of 60 percent in China's target for total installed solar by the end of 2015.

China uses 48.3 percent of the world's total supply of coal. It uses 10.7 percent of the world's total supply of oil. As the costs of coal and oil increase, the costs of solar and wind decrease. What will happen to the world prices of coal and oil when China begins to wean itself away from these fossil fuels in favor of solar, wind, nuclear and other alternatives. This moment, if not now, is to a certainty right around the corner.

A fiduciary holding fossil fuel equities in its endowment must come to terms with this risk factor, and do so before the risk materializes to cause permanent loss to those holdings.

(c) and (d). Public Pressure and Reputational Risks. The developments described in (c) and (d) above need no elaboration. Liquor and tobacco equities have long traded at discounts to normalized fair values, due to stigmatization. Yet, the shades of gray draping over these products pale in significance when compared to the fossil fuel companies, whose business model rests on emitting ever more carbon into the atmosphere while pursuing an agenda of misinforming the public as to the effects of carbon emissions and purchasing political clout to block essential climate change legislation.

Divestment, stockholder proposals, boycotts, petitions, demonstrations and all the other means by which an aroused public can express its outrage exact a toll on public corporations targeted for such attacks. This was true in the case of campaigns against tobacco companies and those doing business in South Africa before apartheid was scrapped. Top managements have children and grandchildren to protect against the very harms their companies are causing to the world. They have reputations as well, community reputations that are separate from the reputations of their companies. And the companies too have reputations that are slowly earned and can be quickly lost. Those reputations affect a company's success in its hiring efforts to attract top talent, in maintaining high morale and motivation among employees and ultimately in growing the bottom line and the trading price of its stock.

Tom Steyer, a summa at Yale and graduate of Stanford Business School, founded Farallon, one of the larger, and one of the most successful, hedge funds in the country. Recently he joined Michael Bloomberg and Henry Paulson to form an NGO called Risky Business. Risky Business has undertaken a national risk assessment of climate change to reveal the financial risks that the United States faces from what it calls "unmitigated climate change." This study is scheduled for release in the summer of 2014. Its likely impact on the trading value of fossil fuel company equities will be harsh.

Here's an excerpt from the message Tom Steyer delivered to the Trustees of Middlebury College on January 22 of this year:

"I believe a fossil fuel free portfolio is a good investment strategy. While there's always a concern that any decision will impact returns, there is a strong argument that a portfolio free of fossil fuels is a smart investment. The available research, looking backward, shows that the return penalty would be tiny - but in any event good investors rarely look backward. Looking to the future, the data on climate change makes it clear that something has changed, and as the rest of the world realizes this, fossil fuel stocks will come under increasing pressure. At the moment, other investors have not fully realized the risk that carbon reserves will become a stranded asset; if you acknowledge what your own science departments are telling you, this gives you an edge relative to those investors. I can tell you that in my own investments, I have directed my financial team to divest my holdings of fossil fuel investments so that I will have a fossil fuel free portfolio myself - in part because I am convinced it will outperform the market."

3. The Legal Context for Divestment Decisions by Fiduciaries. Warren Buffett famously said "Investing is simple, but it's not easy." Investing by fiduciaries is even harder. For every orthodox thinker in the world of investing, there is a contrarian ready to call him wrong. And who is right matters, sometimes enormously. Nearly \$11 trillion in household wealth vanished with the financial crisis of 2008, swept away by a fantastic accumulation of debt held by the financial sector, which grew from \$3 trillion in 1978 to a staggering \$36 trillion in 2007. There were many in the world of finance who foresaw calamity. However, few heard them and of those who did, few were convinced enough to break from the herd.

Since the financial case for divestment is being made with reference to endowment fiduciaries, it is necessary to address the legal context in which the fiduciary must operate. Fiduciaries for endowments, be they for universities, colleges, foundations or other institutions, are charged with the duty of care. Here's how that duty is described in the American Law Institute's 1991 Restatement of Trusts, Third, Section 227:

"This standard requires the exercise of reasonable care, skill and caution, and is applied to investments not in isolation but in the context of the ...portfolio and as a part of an overall investment strategy,

which should incorporate risk and return objectives reasonably suitable to the [purposes of the endowment]".

The ALI Introduction states that "The rules ... are intended to reflect the lessons derived from modern experience and research, without either endorsing or excluding any particular theories of economics or investment."

An understanding of the standard of care generally applicable to fiduciaries leads easily to the conclusion that divestment of fossil fuel companies on the basis of the financial considerations outlined above is a permissible option. Whether divestment on such basis is compelled by the fiduciary standard of care is, at least at the present time, a much more difficult question to answer. Anticipatory divestment in recognition that at some unknown and unknowable point down the road, markets will suddenly adjust the equity price of fossil fuel company shares downward to reflect the swiftly changing future prospects of those companies, however wise today, is probably not yet compelled in the exercise of prudence.

At some point down the road towards the red light of 2 Degrees Centigrade, however, it is entirely plausible, even predictable, that continuing to hold equities in fossil fuel companies will be ruled negligence. Here a powerful 2nd Circuit decision by the famous jurist, Learned Hand, decided in 1932, becomes relevant. In that case, *The T.J. Hooper*, tug boat owners were found liable for loss of cargoes in a nor'easter because they hadn't issued to operators what were then newly developed short-wave receivers. At the time, this new-fangled device was a rarity on tugs. Had the operators possessed them, they surely would have picked up weather reports warning of a storm and sought refuge on the inland waterway.

Here's the crucial finding of this great judge:

"Indeed in most cases reasonable prudence is in fact common prudence; but strictly it is never its measure; a whole calling may have unduly lagged in the adoption of new and available devices. It never may set its own tests, however persuasive be its usages. Courts must in the end say what is required; there are precautions so imperative that even their universal disregard will not excuse their omission."

4. A Final Word About Portfolio Performance. Many different conclusions are being reached as to the impact of divestment on portfolio returns. Looking backward, as Tom Steyer points out in his Middlebury statement, calculations suggest tiny underperformance by a fossil fuel constrained portfolio compared to one not so constrained. Aperio Group reaches the same conclusion. Impax Asset Management, however, concludes fossil fuel free portfolios outperform the average portfolio. And, looking to the future, Tom Steyer predicts his fossil fuel free portfolio will outperform.

None of these claims can be given a very high, and, in the exercise of informed care and caution, should be given a very low, level of confidence by fiduciaries. The answer is basically unknowable. If the alternative were an index fund, like Vanguard's S&P 500, the exclusion of the fossil fuel companies would increase the riskiness of the constrained portfolio, but not necessarily result in lower returns. They could be higher, depending on how the fossil fuel companies perform relative to the rest of the index. The same conclusion would follow from an actively traded portfolio, if the proceeds from divestment were invested pro-rata in the rest of that portfolio. However, if those proceeds were invested in the energy sector, using solely non-fossil fuel (i.e. alternative energy) companies, the riskiness of the portfolio would be reduced by continuing to have exposure to the energy sector, but

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perhaps would be increased by having exposure to less fully tested companies. Of course, the performance would still remain unknown and unknowable.

It should be noted that analysts at main line firms like Citibank, Goldman Sachs, HSBC and Standard & Poors are increasing their attention to the rapidly changing future prospects for the major fossil fuel companies, and generally speaking, what they are concluding should raise red flags of concern for long-term investors with significant exposure to the fossil fuel sector. Indeed, the August 3, 2013 article by The Economist on the global oil industry makes this point throughout, but as a powerful metaphor in its title: Supermajordammerung: The day of the huge integrated international oil company is drawing to a close.

As long term investors, fiduciaries of endowments need not worry unduly about short-term results. Anticipatory divestment should be viewed as having unknown short-term consequences for the portfolio, which could involve loss as well as gain. In the long run, those short-term results are unimportant. The financial case advanced above rests on the claim that fossil fuel companies will prove to be bad investments over the long term and, therefore, with foresight that anticipates this result, should be removed from the long-term holdings of an endowment before the strengthening likelihood of this result becomes commonplace in the market.