Committee For Investor Responsibility

End-Of-Year Report: 2013-2014

Introduction

Despite setbacks in membership, the CIR had a very productive year. Matan Koplin-Green served as chair of the committee, and other non-WSA members included Rachel Warren, Jessica Hanway, Michelle Li, and Angus McLean, while Justin Gitlin served as a WSA representative. Rabbi David Teva and Mary Alice Haddad resigned from the CIR, leaving Christiaan Hogendorn as the sole faculty member and Nathan Peters the staff member. The CR charter calls for at least two faculty members and two staff members, although these positions were not filled during the 2013-2014 school year despite CIR efforts to find replacements. Brendan Coughlin and Michael Klingher continued to serve as alumni members. Next year, the CIR will be losing Rachel Warren and possibly other student members, so a recruiting process will likely start next fall. Michelle Li will be replacing Matan as Chair of the committee for the fall. The chair for next spring has yet to be determined, as Michelle is going abroad, but will most likely be a new CIR member who will shadow Michelle during the fall to prepare for being Chair in the spring.

This year, the CIR worked on the fossil-fuel divestment issue and continued the community investment project, along with fulfilling the usual proxy-voting duties. This charter details our efforts and provides an appendix with relevant documents.

Charter Changes

The CIR made some minor changes to its charter to better reflect how the CIR operates in practice. A clause under the Divestment appendix was removed, as it contained a seemingly contradictory clause that members of the CIR can make recommendations for divestment, while the CIR as a body cannot make recommendations. It was unanimously decided that if the CIR would like to make a recommendation for divestment, that it should be able to do so, and that this decision would be in the purview of the CIR's responsibilities. In accordance with other charter clauses, the CIR would only make an official recommendation for divestment if other prerequisites were satisfied, such as making sure that there is significant support within the Wesleyan community. Therefore, clause (2) under appendix A was removed.

The CIR has discussed the possibility of changing the clause on membership limits. Although the change has not been officially implemented, it has been recognized that allowing for more student members may lead to the CIR to operating more efficiently, as absences are common at CIR meetings and it is important to have voting members attend all meetings. This change will be discussed next fall.

Community Investment

In the Fall 2012 - Spring 2013 Semester, the CIR had invested $250,000 each in The Community's Bank of Bridgeport and in Liberty Bank. Unfortunately, the Community's Bank of Bridgeport closed on September 13, 2013. Because the CIR's investment was FDIC insured, we have managed recover the full $250,000 investment, though we have lost any interest earned by our deposit during that time.

The CIR remains committed to community investment. Following research, we are are working on potentially investing in the Clean Energy Finance and Investment Authority (CEFIA), currently the nation's first green bank. Based in Stamford, Connecticut, the CEFIA leverages public and private funds to drive investment and scale up clean energy deployment in Connecticut, offering incentives and innovative low-cost financing to encourage homeowners, companies, municipalities, and other institutions to support renewable energy and energy efficiency. We are currently in discussion with Nate Peters, V.P. of Finance at Wesleyan, about this proposal.

Divestment

The movement for fossil fuel divestment hit a number of benchmarks in the past year. In October a student government resolution advocating for divestment was passed by a margin of twenty for to six against. The resolution urged Wesleyan to stop any new investments in fossil fuel companies (FFCs) and create a careful plan for full divestment "in a timely and responsible manner." It also requested that the Wesleyan Finance Office release quarterly updates tracking its progress towards divestment, that President Roth add divestment to the school's climate goals, and that should any of the aforementioned proposals be denied that a rationale be made public to the Wesleyan Community.

In response, a meeting was held between the CIR and representatives from the Board of Trustees and the Wesleyan Finance Office. A number of concerns were raised; mostly pertaining to ambiguity surrounding the direct impacts divestment would have on FFCs and the potential financial losses. President Roth added that it seems inconsistent to divest when Wesleyan has a carbon footprint of its own. The representatives suggested that students focus on the demand side of the problem by reducing the school's environmental impact. However, it was stated that the board would likely discuss the issue of divestment in the future.

The issue continues to have significant support from the campus community. Student group Wes, Divest! collected over 700 petition signatures during the last year and saw a significant rise in membership. During the fall board meeting, 160 photographic portraits of students each voicing a different reason to divest lined the walkway outside of South College. In spring, a protest involving nearly 100 students received press in the Hartford Courant. A month later, the CIR worked with Wes, Divest! to host a panel discussion featuring faculty and staff members, an alumnus, as well a Bridgeport community member and activist. The event created a productive discourse between the approximately seventy students who were in attendance.

The CIR also finished drafting its investigation into topic, which can be found below. The committee met with Anne Martin and Brett Salafia to discuss next steps in late spring, and was advised that if a formal proposal to divest will be made by the CIR it must be done during a meeting of the Board's finance subcommittee in New York City. The meeting also helped clear up some ambivalence pertaining to how the committee's charter allows it to take a stance on matters of divestment.

Proxy Voting

The CIR continued to submit proxy votes on the University's behalf, while following the voting guidelines established in previous years. Before voting, the CIR conducts firm-specific research and drafts a memo providing a suggested course of action to be taken during voting. As part of our process, this recommendation memo is distributed to the entire committee before any votes are submitted. This process allows the committee to provide feedback and reach a consensus before votes are filed. Overall, the CIR filed **X** votes during the 2013 - 2014 academic year.

Appendices

A. CIR Divestment Statement Introduction

The following statement served as an introduction to the revised fossil-fuel divestment report, both of which were submitted to the Argus and Wesleying to increase transparency on the fossil-fuel divestment issue.

"The Committee for Investor Responsibility (CIR) at Wesleyan University is composed of students, faculty, staff, and alumni that work on incorporating ethical considerations into Wesleyan's endowment. The CIR submits proxy votes on behalf of the university, represents student activist groups dedicated to ethical investment practices, and has recently been working on a community investment project. Feel free to check out our website for more information at http://cir.wsa.wesleyan.edu/. As a committee that believes in transparency and communication with the larger Wesleyan community, we would like to fill you in on current projects and let you know how to get involved.

As the movement for fossil fuel divestment continues on campus, the CIR has been helping to increase communication between students and administration. Last fall, the committee held a productive meeting with President Roth and other prominent Board of Trustees members to discuss the issue and share concerns. The idea was met with skepticism, although it was agreed that divestment should be given more attention at future Board Meetings. Wes, Divest!, the student group advocating for divestment, plans to offer a formal proposal later this month. The CIR has published a report on the matter, which can be found here: http://cir.wsa.wesleyan.edu/current-projects/

Last spring, we collaborated with the department of finance to expand the Community Investment project begun in 2012. Wesleyan has sourced moved three quarters of a million dollars of the general operating account in FDIC-insured CDS in three different local banks (and a fourth pending), Liberty Bank of Connecticut, Carver Federal Savings Bank, located in New York City, and the City First Bank of DC. We selected the banks for their support of philanthropic work in Middletown and their commitment to underserved communities throughout the northeast.

The CIR has made great progress in the last few years, in no small part thanks to the input we have received from outside the committee. In answering difficult questions about Wesleyan's moral philosophy and the endowment, it is our obligation to make sure the Wesleyan community is part of the process. So, how can you get involved? If you are an alumnus, faculty, or staff member that would like to join the committee, please let us know. Students who are interested in the CIR are highly encouraged to apply for next semester. If you are interested in becoming involved with Wes, Divest!, email amclean@wesleyan.edu for more information. If you have any comments, questions, or great ideas, email mkoplingreen@wesleyan.edu. Please stay tuned for future events: on April 12th, the CIR will host a presentation on the endowment at the Climate Justice Conference of Solutions, and a referendum on divestment will be held towards the end of the semester. Let your voice be heard!

Sincerely,
The Committee for Investor Responsibility"

B. Revised Divestment Report

Divestment Report
Committee for Investor Responsibility
Drafted May 2013; Updated February 2014

Recently, various students and alumni have contacted the Committee for Investor Responsibility (CIR) expressing concern regarding Wesleyan's investments in energy companies that extract fossil fuel resources. This concern stems from recognition that the consumption of fossil fuels is one of the most significant anthropogenic drivers of climate change.[1] Climate change is an issue that will have a wide variety of negative human rights, economic, and environmental consequences. Concerned parties see a fundamental discord between these investments and the moral principles of Wesleyan University. The University is purposed to serve as a place where "students learn to do productive and innovative work that makes a positive difference in the world."[2] There is a fundamental disconnect between the University's stated educational goals and the negative impacts of certain investments in its endowment. This report presents the arguments for and against divestment at Wesleyan so as to inform future discussions on the matter.

Our Responsibility to Act

The production and burning of fossil fuels presents not only great environmental concern, but also a grave danger to fundamental human rights. The release of greenhouse gases into the atmosphere is the most significant factor contributing to global warming, which causes mass extinctions, desertification, air pollution and other environmental consequences.1 Climate models predict an increase in global temperatures of between 1.4-5.8 °C by the year 2100, much greater than any temperature increase experienced in the previous 10,000 years.[3] In Resolution 7/23, the United Nations Human Rights Council recognized that "climate change poses an immediate and far-reaching threat to people and communities around the world and has implications for the full enjoyment of human rights."[4] Research suggests that the effects of climate change, such as droughts, desertification, and flooding, may create

50-200 million new internally-displaced persons and international refugees by the end of the next century.[5] The impact of such massive refugee flows will extend beyond those directly impacted, posing political, social, and economic strains on many areas already confronting various other forms of instability.[6] The effects of climate change are being felt most strongly in developing countries. Damage to agricultural production from extreme weather linked to climate change has contributed to deaths from malnutrition, poverty and their associated diseases. According to a recent report published by the DARA Group and the Climate Vulnerable Forum in May 2012, climate change already costs the world $1.2 trillion a year and results in 400,000 deaths annually. Additionally, air pollution caused by the burning of fossil fuels results in 4.5 million deaths per year.[7] Experts predict that climate change will cause 1/4 of the earth's species to face extinction by 2050.[8] Continuing to invest in practices that contribute to climate change has made Wesleyan the target of much criticism.

Climate change will also likely increase income inequalities both between and within countries. Developing countries lack the resources to adapt to the difficulties associated with more frequent severe weather caused by climate change. Similarly, the most disadvantaged residents within countries lack the means to confront the obstacles presented by climate stress. It is estimated that by 2030, the combined impact of burning fossil fuels due to air pollution and climate change will result in a 3.2 percent decrease in global GDP, with the world's least-developed countries suffering losses of as much as 11 percent of GDP.[6] According to the Millennium Ecosystem Assessment, 20 percent of the world's arid regions have already become desertified due to climate change and this percentage will rise as atmospheric greenhouse gas concentrations increase. The environmental effects of climate change will place great stress on global food and water resources, placing 2 billion people at risk for starvation.[9]

What Statement Does Divestment Make?

Wesleyan's divestment does not necessarily imply that endowments have *a unique* responsibility to address climate change, only that they have *a* responsibility to address climate change. In the same vein that Wesleyan considers the environment in its recycling program, Do It In The Dark energy saving program, Waste Not Tag Sale, College of the Environment think-tank, conferences such as "Pricing Carbon", and the 2050 climate commitment, Wesleyan can also address environmental concerns through its endowment.[10]

Many worry that it appears hypocritical to use electricity and heat generated by fossil fuels while concurrently divesting from companies that are producing them. First, this hypocrisy works in both directions; that is, how can Wesleyan commit to climate neutrality if it is still invested in companies that are fueling the original problem? Second, Divestment does not inherently imply that fossil fuel companies should not exist, or that fossil fuels should immediately be excluded as an energy source. It can only imply that energy companies in their current form – receiving subsidies at the expense of support for renewables and expanding reserves well beyond the level that contributes to climate change – are acting morally irresponsibly, and it is therefore irresponsible to profit from them. Like all socially motivated efforts, Wesleyan's choice to divest from fossil fuels will not singlehandedly stop climate change, but neither will any of these other initiatives; instead they represent important steps towards creating a sustainable future.

Unlike these other initiatives however, the power of fossil fuel divestment is precisely derived from its public nature. And thus Wesleyan, as a visible and prestigious institution, may have particular influence. Previously, Tobacco divestment and divestment from South Africa did not gain serious traction until prestigious American universities joined the movement.[1]

Effects of Divestment Beyond Wesleyan

Divestment implies selling shares of a company to another investor, and therefore giving up shareholder privileges. Some argue that shareholder activism would be a more effective way to fundamentally transform energy companies because it can put visible public pressure on its management. Additionally, consider the case of a large oil company that is also developing alternative energies; it is likely already profitable and successful, and thus has more financial resources to devote towards expanding renewables research. It is an established business, and thus may be able to get larger credit lines than an unknown, smaller firm can get, which ultimately will allow it to expand its clean energy projects much faster than a smaller firm could.

However, shareholder engagement is unlikely to be a powerful enough tool to redirect the activities of most major fossil fuel producers, and divestment puts both social pressure on fossil fuel companies and society at large to address climate change and deploy renewable energy. It is important to acknowledge that direct economic effects of divestment are limited. The $400 billion in university endowments would not be sufficient to significantly move stock prices of the largest energy corporations in the world. Furthermore, these companies' profits are derived from selling energy, not stocks, and less than one quarter of all oil in the world is owned by publicly-held companies. On the other hand, divestment offers the opportunity to stigmatize a firm and its associated industry. Economic research supports the intuition that stigmatization hurts companies financially by impeding their ability to obtain contracts, licensing partners, employees, suppliers, and customers. In the case of firearm and tobacco industry, stigmatization has driven firms to take steps towards improving their reputation.[1] Most importantly, stigmatization aids lobbying efforts to pass restrictive legislation by mobilizing public support for such regulations. Thus, divestment is a powerful statement that highlights the urgency of combating climate change.

Divestment from South Africa, in many ways a parallel movement, had little economic power according to many economists. It was, however, one of the main forces that drove the U.S. Congress to pass the Comprehensive Anti-Apartheid Act of 1986. In the same vein, the status and influence of University endowments may be conducive to leveraging public policy.

Effects of Divestment At Wesleyan

By divesting, Wesleyan would be join a number of cities committed to various gradations of fossil fuel divestment, including San Francisco, Portland, Seattle, Eugene, Berkeley, Richmond, Santa Monica, Boulder, Santa Fe, Madison, Ithaca, Truro, Provincetown, Providence, Cambridge, Northampton, Ann Arbor, Boxtel, New London, and Amherst, along with academic institutions including Unity College, Hampshire College, Sterling College, College of the Atlantic and Naropa University.[11] Divestment would position Wesleyan as a leader in a growing movement for climate advocacy among liberal arts institutions.

Divestment would have implications for our student body and our endowment. On the one hand, the reaffirmation of Wesleyan's progressive ideals may attract more activist-minded applicants. On the other hand, some potential applicants may disagree with the decision. It is difficult to predict the net effect of divestment on total applications and the character of the student body.

Divestment could affect two areas of the endowment: returns and alumni donations. The companies producing these fossil fuels will continue to remain profitable as long as demand for their products exists, which should continue to provide investors with positive returns. One of the primary goals of the University's Investment Office should be to achieve *positive* returns on investments, albeit this is easier said than done. For the 2012 Fiscal Year, the Wesleyan Investment Office achieved returns on the Endowment of 3.6% – which are positive, yet nonetheless slim. Of this return on the Endowment, investments in the oil and gas asset class provided 23.0% percent of returns. For the 2011 Fiscal Year, Wesleyan's energy portfolio had returns of 24.7%. We must consider the negative effects of divesting from high-performing investments in oil and gas companies, which would also imply divesting from these sizable returns. While we cannot say whether future returns on assets related to oil and gas will continue to be as strong, we must recognize that we limit ourselves in investment options when we rule out certain asset classes. Limiting our investment options can only hurt our ability to diversify our portfolio allocation and achieve strong returns. The Wesleyan Community depends on strong endowment returns to continue to provide financial aid, improve University facilities, hire more faculty members, and pursue the academic mission of the University.

The endowment also grows through donations. Some alumni would likely believe divestment represents fiduciary irresponsibility, while other alumni would likely believe that divestment is the only morally responsible option. Perhaps there are additional generational divides among alumni that highlight these differences. Wesleyan has struggled to attract donations, in part because recent alumni in particular do not feel it stands up for its values. Divestment would make this demographic more likely to donate. On the other hand, another demographic may reconsider donations because they believe that divestment represents an undesirable change in Wesleyan's character. The net effect on endowment donations is difficult to discern. If a generational gap does exist, perhaps divestment would decrease net donations in the short term, but as current students become successful in their careers, they may be more likely to donate to Wesleyan if they feel that the actions of the University truly reflected their values.

Gradations of Divestment

Up to this point, divestment has been discussed as an "all or nothing" action that applies equally to all companies producing or contributing to the production of fossil fuels. However, it is possible to make a powerful statement on climate change with a more fuel-specific approach. Below is a list of possible Divestment Positions:

1. Recommendation from Bill McKibben and 350.org[12]: Divest entirely from the 200 companies[13] that represent the bulk of fossil fuel reserves.
2. Recommendation from Boston Common Asset Management: a fuel-specific divestment approach which would begin with divesting completely from coal and nuclear but retain some oil and natural gas holdings and engage with those companies to make practices more sustainable. In particular, the fund advocates for continuing investment in the expansion of natural gas for the next 10-20 years. And retaining holdings in oil but avoiding companies who engage in off shore drilling or drilling in the Tar Sands area.[14]
3. Divestment from only direct holdings in fossil fuel (or fuel-specific) companies.
4. Divestment from all managers and direct holdings involved in the oil and gas sector.
5. Divestment only from energy companies that have not made a commitment to sustainability comparable to that of Wesleyan, while maintaining investments in those which have met a certain set of parameters demonstrating their commitment.

Conclusion

The negative effects of the production and consumption of fossil fuels pose an arguably paramount threat to the environment and human rights. Thus, as an institution of research and learning that touts its commitment to progressive values, Wesleyan must consider all strategies that reduce the extent to which our institutional choices perpetuate the problem without compromising other responsibilities and goals. Divestment presents an opportunity to make a powerful statement about climate change, but is also potentially harmful to Wesleyan's current and future financial health if carried out irresponsibly. Before any major decision is made, we must first make a complete financial assessment of the impact of a range of different divestment options on the endowment, as well as fully consider a strategy for re-investment. We must also make an assessment of what such a financial impact would have in real terms on Wesleyan and obtain some consensus from our stakeholders – students, faculty, staff, and alumni – that our decision is worth the risks it may entail.

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[1] http://www.epa.gov/climatechange/basics/

[2] https://www.wesleyan.edu/about/

[3] http://climate.nasa.gov/effects

[4] http://ap.ohchr.org/documents/E/HRC/resolutions/A_HRC_RES_7_23.pdf

[5] Docherty, Bonnie; Tyler Giannini (2009). "Confronting a Rising Tide: A Proposal for a Convention on Climate Change Refugees". *Harvard Environmental Law Review* **33**: 349–403
[6]
http://www.independent.co.uk/voices/commentators/mary-robinson-climate-change-is-an-issue-of-human-rights-1059360.html
[7] http://www.guardian.co.uk/environment/2012/sep/26/climate-change-damaging-global-economy
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http://www.nature.org/ourinitiatives/urgentissues/global-warming-climate-change/threats-impacts/wildlife-at-risk.xml
[9] http://dissidentvoice.org/2013/04/top-ten-dreadful-effects-of-climate-change/
[10] http://www.wesleyan.edu/sustainability/climate-action/CAP-update-2012.pdf
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