High Oil Prices Offer Endowment Boost

> Oil prices are on a major upswing and paying off for some endowments, even as colleges face pressure to divest from fossil fuels over climate change concerns.

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As anyone who has been to the gas pump lately knows, oil prices have boomed this year.

Colleges and their constituents are feeling the squeeze, with some institutions even moving courses online (https://www.insidehighered.com/quicktakes/2022/05/26/college-starts-%E2%80%98virtual-fridays%E2%80%99-cut-gas-costs) to offer students and employees a slight reprieve from gas prices. The surge comes at a time when many universities have backed away from fossil fuels, divesting from the energy sector following sustained pressure from students and environmental activists concerned about climate change and the ways colleges are contributing to it.

Others, like the University of Texas system, which has vast oil and gas holdings, are cashing in.

According to a recent *Bloomberg* article (https://www.bloomberg.com/graphics/2022-harvard-university-of-texas-richest-college-oil-endowments/#xj4y7vzkg), the Texas system oversees 2.1 million acres in the oil-rich Permian Basin, which it leases to fossil fuel companies, raking in about $6 million daily. The article speculates that such returns could lead Texas to unseat Harvard University as the richest institution in higher education.

But what do soaring oil prices mean for colleges that have divested from fossil fuels?

The Divestment Movement

Calls for colleges to divest from fossil fuels have echoed through the halls of higher education for years, with some institutions reducing their investments in fossil fuels (https://www.insidehighered.com/news/2013/04/18/fossil-fuel-divestment-movement-picking-steam-and-unlikely-go-away) as far back as a decade ago.

Since then, the calls have only gotten louder, and in some cases, they've been punctuated by lawsuits (https://www.insidehighered.com/news/2022/02/22/student-legal-complaints-target-fossil-fuel-investments). That pressure has been especially intense at the richest universities with the most money to divest, theoretically setting the tone for the rest of higher education. In recent years, the divestment dominoes have fallen at places like Brown University (https://www.insidehighered.com/quicktakes/2020/03/05/brown-university-divests-fossil-fuels), Columbia University (https://www.insidehighered.com/quicktakes/2021/01/25/columbia-divests-oil-and-gas-companies), Georgetown University (https://www.insidehighered.com/quicktakes/2020/02/07/georgetown-divest-fossil-fuels), the University of Southern

California (http://www.insidehighered.com/quicktakes/2021/02/18/usc-will-divest-fossil-fuels) and various others.

As other institutions consider divestment, they must weigh the economic costs and benefits.

“I think with every decision that management teams make, you’re weighing different strategies and costs and benefits,” said Jessica Wood, sector lead for higher education at S&P Global. “If the priority is an environmentally conscious mission, then that would be the strategic priority versus perhaps an offset in terms of investment gains, or whatever the offset might be.”

Universities have increasingly focused on responsible investing approaches, adding environmental and other factors into their investment policies, according to the most recent endowments study (https://www.nacubo.org/Press-Releases/2022/Endowments-Post-Strong-Returns-During-the-Pandemic-But-See-Inflation-as-Emerging-Challenge) from the National Association of College and University Business Officers. NACUBO found that more than 80 percent of respondents to its endowment survey have added “environmental, social, and governance factors” into their strategic plans.

However, many institutions are skeptical that responsible investing will deliver strong financial results.

“Universities have always been reluctant to divest around social issues, preferring to use a rationale that they should invest endowments according to what will grow the endowment most. This has complex ethical implications,” Charlie Eaton, a sociology professor at the University of California, Merced, and the author of *Bankers in the Ivory Tower (https://www.insidehighered.com/news/2022/03/01/author-discusses-his-new-book-bankers-ivory-tower)*, explained by email.

Universities with oil and gas investments are enjoying strong returns at the moment, but financial experts note that they are playing the long game when it comes to endowments. While oil prices are high now, that’s a relatively recent development. Unpredictable events—such as the coronavirus pandemic and the war between Russia and Ukraine—have reshaped the market.

“Pre-pandemic, pre–Ukraine war, energy was one of the worst-performing sectors in the market,” Michael Rosen, chief investment officer at the firm Angeles Investments, told *Inside Higher Ed*, adding that much of the change can be explained through the classic economic principle of supply and demand. “The demand for the use of energy has risen. At the same time, we see supply constrained primarily through the sanctions imposed on Russian oil and gas.”

Divestment, of course, has not been universal, with many higher education holdouts remaining.

“Not every university has pursued a divestment policy and, even in the face of student demands, has pushed back and determined that that would not be in the interest of the university to do so,” Rosen said.

John Griffith, an endowment specialist at the investment firm Hirtle Callaghan, said by email that “divestment has always been a difficult philosophical issue.” If a goal of the university is to maximize endowment returns, then investment committees need to carefully consider “what issues are significant enough” to make them deviate from that goal. Essentially, it’s a matter of trade-offs—are colleges willing to forgo potential earnings for an environmental cause?

Griffith stresses that markets are ever-changing. What’s hot now may be cold tomorrow.

“Like all investments, sometimes oil/gas divestment pays off and sometimes it does not; it flows with the market. Now is a good time for those who did not divest, but it is just one point in time,” Griffith said.

Divestment Beyond Fossil Fuels

Endowment experts point to the 1980s and the apartheid government of South Africa as a key inflection point for the broader divestment movement. Student activists at the time pushed colleges to pull investments out of South Africa to protest the government’s racist policies. Many did, with the University of California system divesting a reported $3 billion (https://www.latimes.com/archives/la-xpm-1990-07-01-mn-907-story.html) out of firms tied to the country.

Similar protests over other issues have also prompted divestment decisions. Harvard, for example, divested from a Chinese oil company in 2007 (https://news.harvard.edu/gazette/story/2005/04/harvard-announces-decision-to-divest-petrochina-stock/) that was accused of contributing to genocide in the Darfur region of Sudan by aiding the Sudanese government financially. At the time, Harvard officials said the circumstances in Sudan warranted “the rare step of divestment.”

While fossil fuels are the prime target of the latest divestment push, Eaton pointed to other divestment campaigns in recent years that have taken aim at holdings in controversial for-profit prisons and in Israel, which has come under fire for its treatments of Palestinians—an issue that has landed at U.S. colleges with tensions flaring (https://www.insidehighered.com/news/2022/06/03/promoting-dialogue-among-jewish-students-divided-israel) over human rights. He also flagged “endowment investments in predatory for-profit colleges,” which “have received surprisingly little attention.”

Some observers suggest that the notion that divestment will drive companies to change their behavior doesn’t play out in reality. Rosen questions the efficacy of the divestment movement, arguing that colleges would be better served by focusing on what they can control internally—such as more renewable energy on campus—rather than on what can be accomplished by asserting external pressure.

"There's no evidence that divestment causes behavior modification by companies," Rosen said, adding that divestment is more of a statement of values than a useful lever to drive change.

Griffith suggests that colleges "look at climate change holistically." Using the University of Texas as an example—which experts note is unusual for its vast assets in oil and gas fields—he points out that even as the UT system cashes in on fossil fuels, it is developing renewable energy at the same time.

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