PRESIDENTIAL TASK FORCE TO EXAMINE DIVESTMENT
DRAFT FINAL REPORT TO THE BARNARD COLLEGE BOARD OF TRUSTEE'S COMMITTEE ON INVESTMENTS DRAFT

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EXECUTIVE SUMMARY

BACKGROUND

Barnard's Board of Trustees established the Presidential Task Force to Examine Divestment at its meeting on December 9, 2015, as a result of an effective year-long student campaign from the group Divest Barnard to convince Barnard's administration and Board to consider divesting its endowment from fossil fuel companies.

The goal of the Task Force is to "enable the Investment Committee and, subsequently, the Board of Trustees, to make an informed decision about whether to seek divestment from companies that extract, process, distribute, and sell fossil fuels." President Spar charged the Task Force "to work collaboratively with a cross-section of the Barnard community to assess the financial implications of divestment; to understand Barnard's ethical responsibilities as a good global citizen in dealing with the impact of climate change; and to make a determination about the compatibility of these priorities." The Board decided to establish the Task Force

Fossil fuel divestment and Barnard's role as a global citizen are highly complex issues. Over the course of nine months, the Task Force weighed the financial and fiduciary responsibilities of the Board to grow the value of Barnard's endowment and the moral and ethical issues surrounding Barnard's responsibility to do its part to mitigate the effects of climate change.

KEY FINDINGS

The Task Force arrived at the following conclusions:

- Climate change, caused largely by the combustion of fossil fuels, adversely affects the environment and society, exacerbating inequality in the developing world. The Task Force agrees that climate change presents a real threat to the environment and Barnard, as a good global citizen, needs to do its part to mitigate its impact.
- The Task Force believes that Barnard should pursue a robust climate action plan within its own community, including from individual members. Reducing the demand for fossil fuels on campus and advancing research, education and engagement on this issue are critical ways in which Barnard can be a leader in sustainability and environmental responsibility.
- The Task Force agrees that fossil fuel divestment may not have a direct impact on the financial condition of fossil fuel companies but can represent a symbolic act that, along with other voices, might ultimately pressure governments and fossil fuel companies to modify their behaviors and make responsible decisions to mitigate the impact of climate change.
- A decision to divest must be balanced with the need to protect and grow the endowment. The Task Force recognizes that a robust endowment is a critical component of Barnard's financial health and the Board should take no action that would undermine its growth.

- The Task Force acknowledges that it is not possible to accurately predict what financial impact divestment will have on the endowment. But, the Task Force agrees that a decision by the Board to divest could present some risk that the Investment Committee will have to work to manage with Barnard's Outsourced Chief Investment Office (OCIO).
- The Task Force believes that there should be a very high threshold for the Board to consider divesting investments from a particular industry and that climate change meets this threshold. Any future issue must be discussed on its merits and must meet this very high threshold.
- Therefore, a decision on fossil fuels should not be viewed as a precedent for other issues in the future.
- Accordingly, the Task Force believes that Barnard's endowment needs to be flexible enough to react to changing priorities that could influence where and how the endowment is invested. The Investment Committee should consider flexibility as a key attribute of any OCIO firm engaged by the College.

RECOMMENDATIONS

Divestment

The Task Force recommends that the Board divest from companies that mine coal and tar sands and work with Barnard's endowment manager to ensure that Barnard's endowment gets as close to zero exposure (no greater than >0.01% of the endowment) to these types of fossil fuels as soon as possible. The Task Force also recommends that the Board commit to a good faith effort to divest the endowment from any investments in fossil fuel companies that deny climate science or otherwise seek to thwart efforts to mitigate the impact of climate change and bring these investments as close to zero as possible. The Task Force recommends that the Committee on Investments work with Barnard's OCIO to assess the efficacy of this approach and regularly report to the Investment Committee. To assist the OCIO in its work, the Task Force recommends that the Committee on Investments establish a working group of students, faculty, and staff to (1) develop a definition of climate denial that the Committee can use in discussions with an OCIO and (2) work with the OCIO on a process to vet fossil fuel companies (using the top 200 fossil fuel companies as a starting point) against the criteria as candidates for possible divestment.
In arriving at this recommendation, the Task Force considered five investment options:

- **Option 1: Maintaining the status quo** whereby Barnard would make no changes to its current investment strategy;
- **Option 2: Making an investment in a fund focused on alternative energy**, as a signal of Barnard's support for carbon free alternatives.
- **Option 3: Divesting from companies that mine coal and tar sands.** Under this approach, Barnard would work with an OCIO to ensure that Barnard's endowment gets as close to zero exposure (no greater than >0.01% of the endowment) to these types of fossil fuels as soon as possible. This option would also recommend an investment in a sustainability fund focused on alternative energy.

- **Option 4: Divest from companies that deny climate science (recommended):** This option would divest from all companies that actively deny climate science by word and/or deed. Barnard would work with its OCIO to implement this commitment in such a manner to protect the returns of the endowment.

- **Option 5: Full divestment**: Under this option, Barnard would commit to reducing the endowment's exposure to fossil fuels to as close to zero as possible over the [next 5 years] and would work with its OCIO to implement this commitment in such a manner to protect financial returns of the endowment.

The Task Force has settled on Option 4 for a number of reasons. Investing in companies that actively distort climate science findings, deceive the public, or block efforts to accelerate a transition to a cleaner economy constitute an affront to Barnard's mission as an academic institution. As stated in a recent report by the Union of Concerned Scientists, "All companies operate with a social license, and companies that fail to act responsibly can lose the public trust."[1] By urging divestment from these firms, Option 4 would align our investments with our core mission, centered as it is on academic freedom and scientific integrity. Moreover, by distinguishing among fossil fuel producers and selectively screening out those whose practices most clearly obstruct the adoption of evidence-based policies, Option 4 would allow the College to reward companies transitioning to a cleaner economy and create incentives for the poorest performers to change their ways. Selective divestment would also allow Barnard to carve a new and distinctive path of engagement, reflecting the College's independence of thought and its willingness to innovate. Our strategy could serve as a template for those institutions still grappling with this decision, and perhaps induce those who have previously made different decisions to reconsider.

The Task Force did not make this recommendation without a clear-eyed view of the difficulties we face in its implementation; there remain serious questions about how such an approach could be put into practice. Defining climate-denying behaviors and continually monitoring the industry for such behavior are key challenges. In this regard, the Task Force developed possible criteria against which to screed fossil fuel companies based largely on the work of the Union of Concerned Scientists (UCS).[2] We also considered Columbia University's Advisory Committee on Socially Responsible Investing's (ACSRI) "stand up for science" approach to judge companies on whether they deny or affirm climate science in our discussions around definitions. The Task Force decided to use the UCS criteria as a starting point including the extent to which a company (1) renounces disinformation on climate science and policy, (2) plans for a world free from carbon pollution, (3) supports fair and effective climate policies, and (4) fully discloses climate risks. Section 5 discusses this criteria in more detail. While Option 4 will be difficult, the Task Force agrees that the value of making a good faith commitment to divest from these companies outweighs any implementation challenges we face.

The Task Force seriously considered Option 5 but agreed that its coverage is too broad and that it

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[1] www.ucsusa.org/global.../fight.../**climate-deception**-dossiers-fossil-fuel-industry-mem...

[2] http://www.ucsusa.org/global-warming/fight-misinformation/climate-accountability-scorecard-ranking-major-fossil-fuel-companies#.WCNb5lUrKUk

lacked the science-based differentiation and connection to Barnard's academic mission presented in Option 4.The Task Force believes it is the responsibility of governments to change laws and regulations in order to account for the immense potential costs of fossil fuel combustion. Option 4 furthers the cause of bringing about these changes, while Option 5 may hinder it by painting all companies with the same broad brush. Moreover, a blanket ban on an entire industry would raise questions of academic and scientific bias; Barnard-based research relating to fossil fuels could be questioned because it is supported by an institution that has taken a stand against the sector as a whole.

Sustainability

The Task Force agreed that reducing Barnard's carbon footprint is an essential part of a broader climate action plan. Given the specific and very real threats faced by all New Yorkers – estimates indicate that sea levels around New York will rise six feet by 2100.[3] Barnard has a unique opportunity and special responsibility to pilot innovative programs and set audacious goals that can serve as a model for campuses around the country. While Barnard already has a robust, if unsung, sustainability program overseen by the Tripartite Committee on Sustainability, the Task Force agreed that Barnard can do more. The Task Force proposes that Barnard:

- Issue a clear and public Sustainability Mission and value statement;
- Develop a climate action plan with clear, time-bound and measurable goals in the areas of energy, consumption and waste, campus environment, and curricula and research;
- Launch a campus-wide process of community engagement to set and achieve measureable goals, generate community buy-in, and foster a campus culture of sustainability; and
- Create the personnel and budgetary structure necessary to achieve our goals to include:
    - Creating a position of Sustainability Dean or Officer, charged to work with student, faculty, and staff representatives on the Tri-partite committee, and with our neighbors in the community and at Columbia.
    - Working with functional departments on campus to appoint a sustainability representative to participate in identifying and implementing specific goals for each department; and
    - Allocating 5-10% of the Campus Services Repair and Rehabilitation (R&R) budget for sustainability initiatives, with priorities determined by the Tripartite Committee.

[3] https://www.sciencedaily.com/releases/2016/03/160330130804.htm

Summary of the Divestment Debate

Clearly, Barnard cannot solve the daunting problem of climate change alone but, as a global citizen and global academic leader, the College is obligated to do its part. Some, like the student group Divest Barnard, who convinced the Board of Trustees to seriously review the issue of divestment, argue that we have a moral imperative to act. While that is true in great part, the issues are complicated and nuanced, engaging such questions as:

- How can we ensure that our endowment is aligned with our mission?
- Will divestment have any impact on the behavior of fossil fuel companies or governments to act to mitigate the impacts of climate change? and
- Will divestment impact the value of our endowment in the future, and if so, how?

The Task Force reviewed how the divestment debate has unfolded over the past few years. The arguments surrounding this issue are complex, nuanced, and sometimes contradictory, and those institutions who have gone before us have justified their decisions for different reasons. It is important to note that most institutions of higher education that have considered the divestment question have chosen not to divest.

Proponents of divestment argue that because of the detrimental impact of climate change on society we have a moral imperative to act. Since Barnard both uses fossil fuels and profits from investments in fossil fuel companies, we are contributing to the problem. Given this, we should work to align our investments with our mission. Aligning our endowment to our mission is important if we place a high value on academic integrity. Shedding investments from companies that have worked to deny climate science would certainly align our endowment with our approach to science. But there are counter-arguments. Many institutions have argued that endowments should not be used to make political statements and view divestment as actually undermining a commitment to academic freedom; Harvard notes, for example, that inserting politics into the endowment presents risks to the "independence of the academic enterprise."

One question that pervades the debate over divestment is whether it will have any impact at all in changing the behavior of fossil fuel companies. Because divestment entails a transfer of ownership in the secondary market for securities, it will not have an impact on the financial condition of fossil fuel companies – there will be a buyer for the assets that we sell. Some even argue that fossil fuel companies are large investors in alternative energies so punishing them by divesting will be counterproductive. That said, one cannot have it both ways: if divestment will have no impact on the financial condition of fossil fuel companies it can't at the same time inhibit these companies from developing alternative sources of energy.

Proponents of divestment concede that divestment will not have a direct impact on the financial condition of fossil fuel companies, but note that it has symbolic power and the "chorus" of institutions who divest will ultimately influence governmental and private sector behavior. One observer argued that public action by influential organizations can create "immediate waves" within the broader movement and an Oxford University study points to the pressure the global divestment movement can place on governments to take action to mitigate climate change by stigmatizing the industry. But some schools argue that divestment is not worth pursuing precisely because they believe it would be a purely symbolic, and thus hollow, act with no practical impact.

Among the critical questions facing the Board is whether divestment will have a financial impact on Barnard's endowment. The Task Force concluded that there is no way to accurately predict whether divestment will impact the endowment. Some argue that excluding fossil fuel investments will hurt returns given that the energy sector is a consistent part of the overall market. Others assert that investments in fossil fuels are risky given that oil and gas reserves will likely become "stranded" when governments begin to limit extraction to mitigate climate change impacts. Interestingly, those colleges and universities that predicted that divestment would hurt the value of their endowment chose not to divest. Those institutions who believed that past performance is not a predictor of future returns and that continued investment in fossil fuels is risky were more inclined to pursue divestment.

Social Impact

As part of its work, the Task Force considered the overall context in which Barnard faces the issues of fossil fuel divestment and climate action. These are certainly not the first political or social issues that the College has faced. Indeed, Barnard, like other educational institutions, confronted such challenges as divestment from South African apartheid in the 1980s, from tobacco in the 1990s, Darfur in the 2000s, and, most recently, private prisons and fossil fuels. The College has also faced other social issues, including the admittance of transgender students at Barnard, which rose to a Board level decision. What is clear is that through time, institutions, including Barnard, have reacted inconsistently to these political and social challenges. For example, many schools that chose to protest apartheid by divesting from companies invested in South Africa are today reluctant to divest from fossil fuels.

Decisions on how and when to act may have more to do with the scale and complexity of the problem. South Africa represented a clear violation of human rights, tobacco presented a public health issue, and the business model of private prisons is based on increasing incarceration rates. While all of these can be viewed as morally questionable, climate change and the role fossil fuels play in society are potentially more complex issues than others we have faced.

Financial Implications for the Endowment

The Task Force analyzed the key question of whether divestment will have a detrimental financial impact on Barnard's endowment, and we found that this is not possible to predict. We looked at five potential investment scenarios, both with and without fossil fuels. Using the average returns over the past ten-years (2007-2016) for different indices, we projected these returns ten years into the future to gauge possible impacts on our endowment value. The details of our analysis can be found in section 4. For the five scenarios, the following investment return assumptions were used over a ten-year period from July 1, 2016 to June 30, 2026:

Scenario	10 Year return as of 6/30/16	Annual change in spending vs status quo (Dollars in millions)
Status Quo – Total Assets	6.8%	$ -
S&P 500 Excluding Energy Index	7.7%	+.6
S&P 500 Index	7.4%	+.4
MSCI ACWI Index	4.8%	-1.8
Status Quo – Global Equity Only	5.5%	-1.2

Based on the varied results of the projections, the Task Force has concluded that the future financial impact of fossil fuel divestment cannot clearly be predicted. Any change in the components of the College's endowment may have a financial risk on the endowment's performance but that risk cannot be quantified.

While fossil fuel divestment may limit the tools that an investment manager has at their disposal, the risk of that limitation cannot be fully measured. As a result, active management is critical to take advantage of opportunities available to the College.