



**The Nelson A. Rockefeller Center at Dartmouth College**

*The Center for Public Policy and the Social Sciences*

**Policy Research Shop**

# Divestment From Fossil Fuel Investments

## An Analysis of Potential Impacts and Strategies

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# Executive Summary

- Background
- Fiduciary Responsibility
- Financial Impacts
- Divestment Efficacy
- Divestment Strategies



# Background

- Value of fossil fuel in pension funds =  
\$39.7 million of \$3.8 billion, 1.04%
- Compare to Seattle (4.44%) and  
San Francisco (3.2%)
- The average fund 2-10%



# Fiduciary Responsibility

- Current Law
  - Does require that divestment decisions have neutral or positive effect on returns
  - Does not outlaw socially responsible investment
- Current law is part of Uniform Prudent Investor Act
  - Is a national framework, constraining



# Financial Impacts Overview

- Sin Stock Premium and Fossil Fuel Asset Effects deemed to have minimal impact
- Sin Stock Premium
  - Academic consensus: costs of moral projects balanced out by better community relations, worker retention, etc.
- Fossil Fuel Asset Effects can be removed with intelligent reinvestment



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# Financial Impacts Overview (cont.)

- Three Major Effects
  - Diversity Penalty (likely negative)
  - Transaction Costs (likely negative)
  - Carbon Bubble (likely positive)



# Diversity Penalty

- Wide Range of Estimates
  - High: 1.04%
  - Low: 0.0002% for removal of “filthy fifteen”
- Estimates at the lower end are supported by more reliable studies
- VT has less invested in fossil fuels than peer accounts making the diversity penalty even smaller



# Transaction Costs

- Costs associated with research, advisor, and brokerage fees
- SCERS study estimates transaction costs to be 0.5% on the buy and sell sides
- This translates to \$400,000 in transaction costs for the VT pension account
- Typical administrative costs for a fund of VT's size are between \$19 million and \$52.8 million





# Carbon Bubble

- Assuming legislation limiting climate change is passed in the future fossil fuel stocks are expected to decline
- One estimate is 40-60% of a viable oil and gas portfolio



# Divestment Efficacy

- Direct Financial Impacts
  - Likely very limited
  - Small account, stocks picked up by neutral investors
- Indirect Impacts
  - The larger effect
  - Large media impact, stigmatizing power



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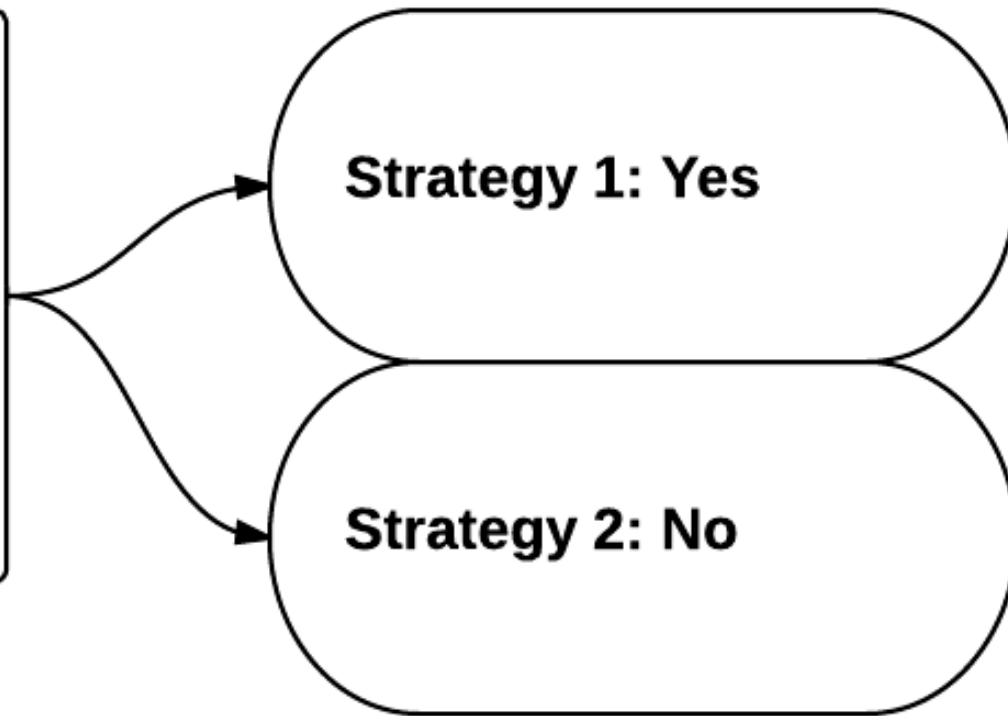
# Steps Towards Divestment

## Deciding to Divest

The first step

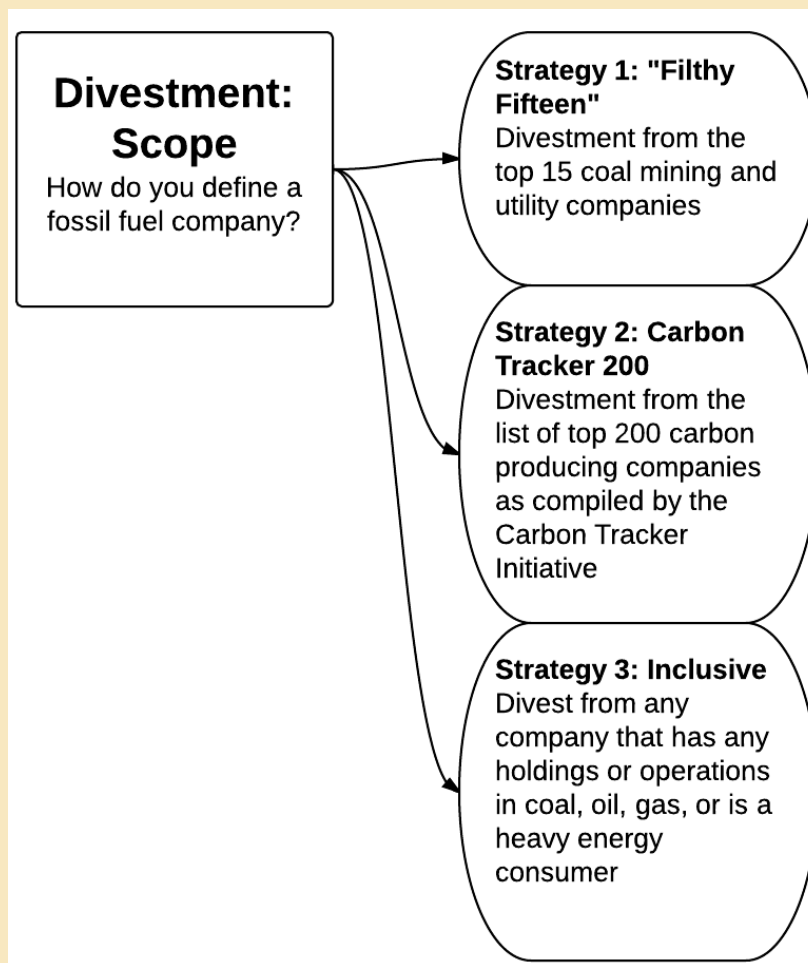
Strategy 1: Yes

Strategy 2: No





# Steps Towards Divestment





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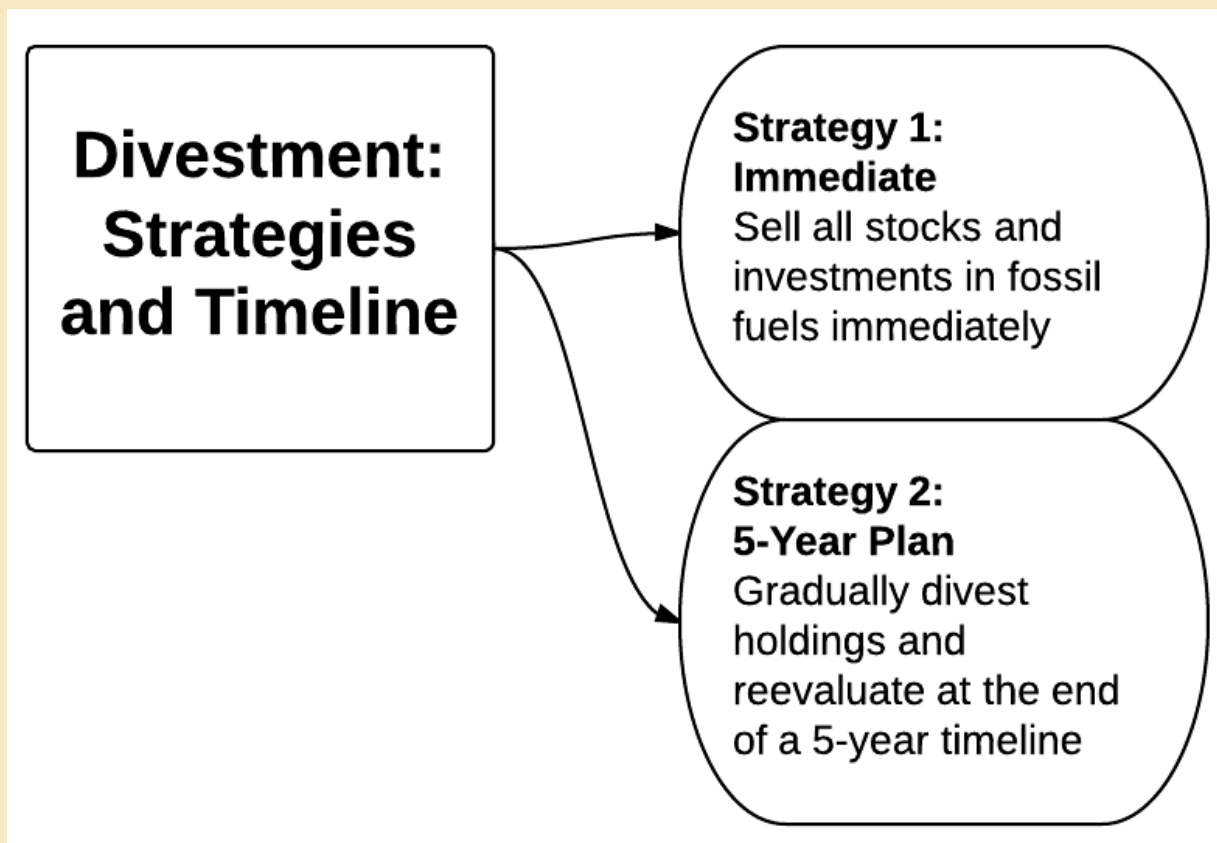
# Steps Towards Divestment

**Divestment:  
Freeze New  
Investments**

Freeze all new investments in fossil fuels in order to take inventory of current assets and finalize plans

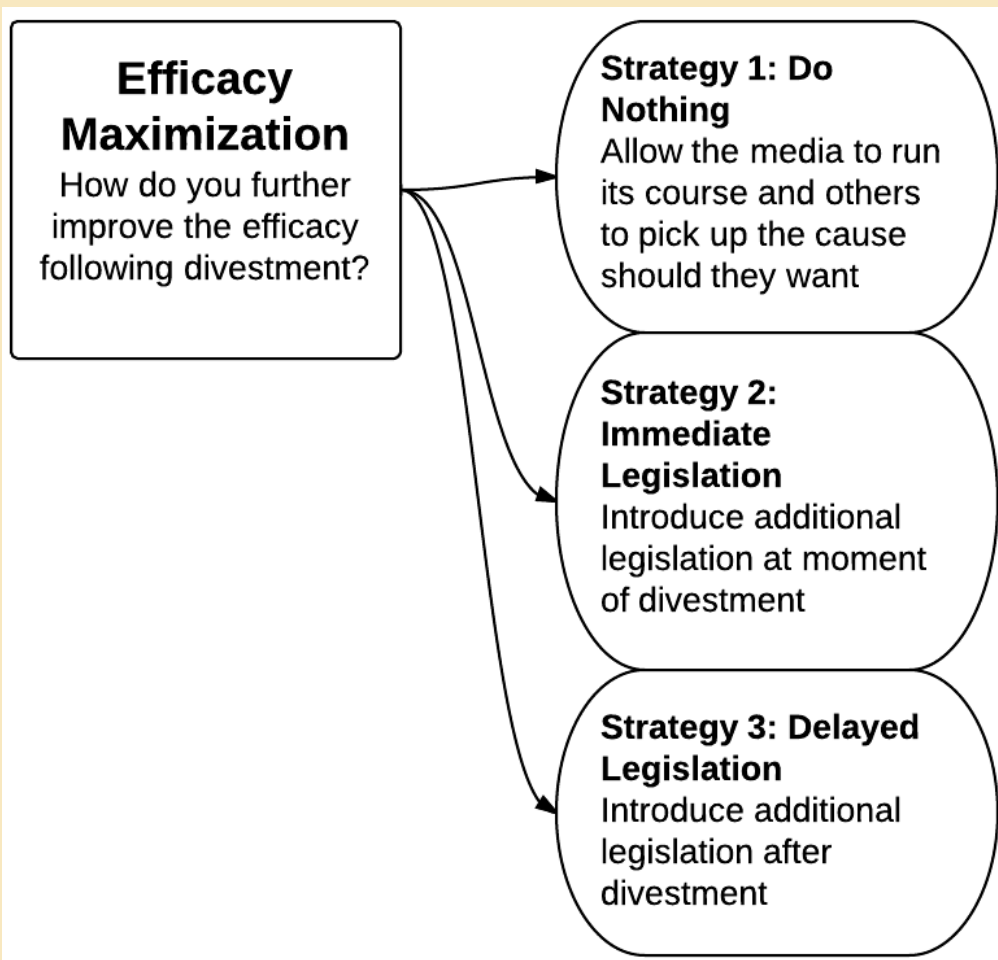


# Steps Towards Divestment



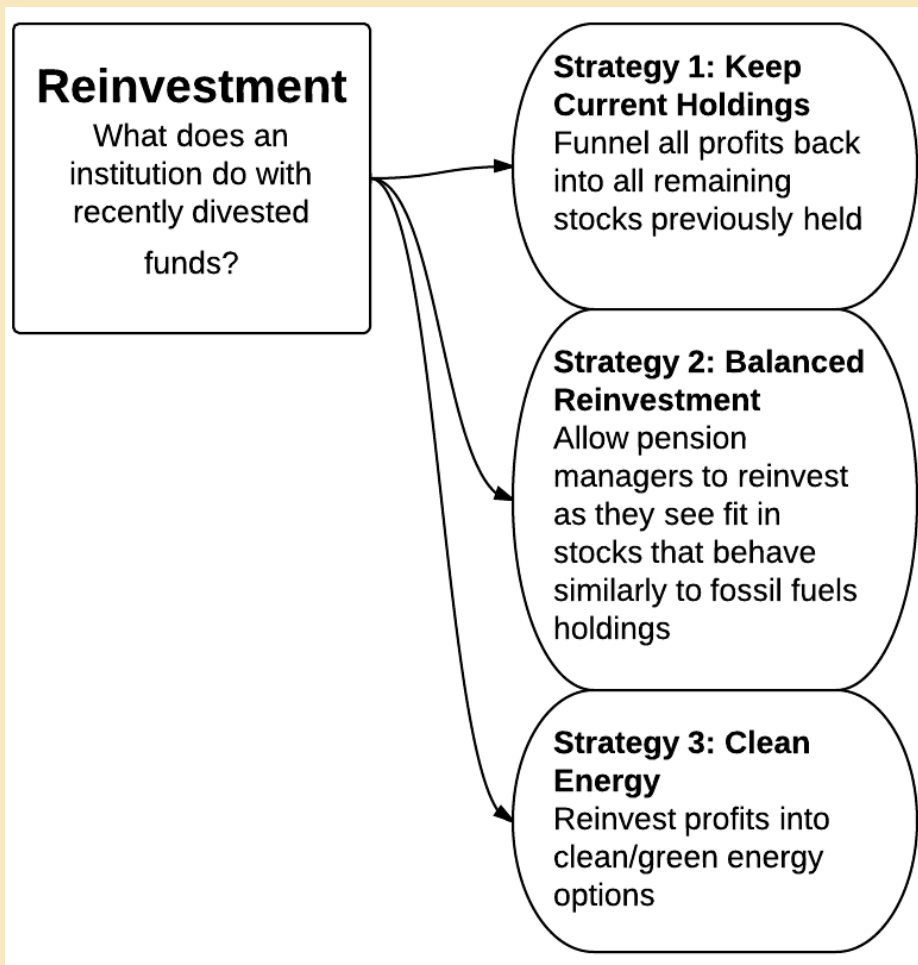


# Steps Towards Divestment





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# Media Impacts

- Inevitable media attention, first state to divest
- Unity College example



# Conclusion

- Fiduciary responsibility
- Main impacts: diversity penalty, transaction costs, and carbon bubble
- Not all plans are created equal
- It's complicated