DIVESTMENTFACTS.COM

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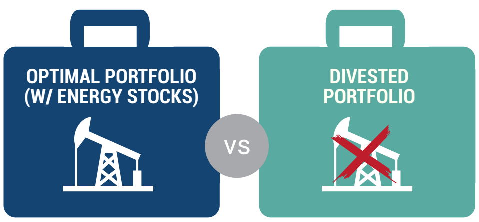
Should universities accede to activists' demands and divest their endowments of fossil-fuel related stocks? Proponents say that divestment can "stigmatize" the oil and gas industry, all while costing institutions that adopt these policies almost nothing at all.

But a groundbreaking study just released by Prof. Daniel R. Fischel of the Univ. of Chicago exposes the mythology behind these claims. The report finds that colleges and universities that choose to divest can collectively expect to see **billions of dollars evaporate** from their endowment funds each year, all while being forced to pay **hundreds of millions in new management fees** to comply.

AMONG THE STUDY'S KEY FINDINGS:



Reduced returns in divested portfolio of 70 basis points – each year, over 50-year period

- Using an economic model that tracked the performance of investment portfolios that included energy-related stocks over a 50-year period compared to those that didn't, the Fischel study finds that portfolios **divested** of energy equities produced returns **0.7 percentage points <u>lower</u>** than ones that invested in energy on an absolute basis.

- While a loss of 0.7 percent might not seem like much, consider that a $100 invested in a diversified portfolio that included energy stocks in 1965 would be worth $14,600 today. That same $100 invested in a vehicle devoid of energy stocks would only be worth $11,200, **representing a 23 percent loss.**

- A decrease in portfolio performance of 0.7 percentage points on the roughly $456 billion that comprises total university endowment assets would decrease annual growth by **nearly $3.2 billion each year.**

- Management fees for complying with divestment polices are much higher than those charged by traditional funds. The Fischel study finds that an increase in compliance costs of just one percent on the estimated $22 billion of those endowments invested in energy stocks would further decrease growth **by an additional $220 million per year – <u>over and above</u> the billions squandered in lost returns.**

- And while the impact on school endowment funds is likely to be enormous, the Fischel study finds no evidence of any discernable impact on the companies being targeted by the policy. In fact, the only entities punished under a fossil-fuel divestment regime are the schools actually doing the divesting.

ABOUT PROF. FISCHEL

Professor of Law and Business Emeritus, Univ. of Chicago Law School

Fmr. Dean, Univ. of Chicago Law School

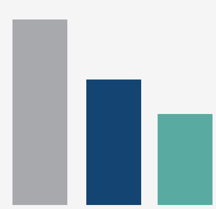
Chairman and President, Compass Lexecon, a top-rated economic consulting firm

Fmr. Professor, Northwestern Univ. Law School

Supreme Court clerk for Justice Potter Stewart

Author of two books on economics and corporate law

EXPECTED ANNUAL HIT TO ENDOWMENTS



↓ $3.2B each year.

DIVESTMENT WILL COST SCHOOLS MILLIONS

Several schools, such as Swarthmore College in Pa., Wellesley College in Mass., and American Univ. in Washington, D.C., have undertaken their own internal evaluations of the potential costs associated with divestment. Here's what they found:

SWARTHMORE

WELLESLEY

AMERICAN UNIVERSITY
WASHINGTON, DC

SWARTHMORE COLLEGE

"The documents lay out the College's estimate that divestment from fossil fuels would **cost a total of at least $200 million (cumulative) over the next ten years.** The value of the College's endowment was approximately $1.5 billion as of June 30, 2012." ("Swarthmore Pegs Cost of Divestment at $200 Million Over 10 Years," Swarthmore Daily Gazette, May 9, 2013)

WELLESLEY COLLEGE

"The Investment Office estimates that full divestment would reduce endowment earnings, because Wellesley would earn market returns instead of the above market returns that its investment managers have historically generated, and subsequently would **reduce endowment spending by $15 million a year.**" (Wellesley College Divestment Fact Sheet)

AMERICAN UNIVERSITY

"[D]ivesting from these [energy] companies would require that AU investments be withdrawn from index funds and commingled funds in favor of more actively managed funds. Cambridge has estimated this withdrawal would **cause manager fees to double.**" (American Univ. "Memorandum on Divestment," Nov. 21, 2014)

THANKFULLY, VAST MAJORITY OF SCHOOLS APPROACHED BY DIVESTMENT ACTIVISTS NOT FOOLED

HARVARD UNIV. (MASS.)

"I also find a **troubling inconsistency** in the notion that, as an investor, we should boycott a whole class of companies at the same time that, as individuals and as a community, we are extensively relying on those companies' **products and services** for so much of what we do every day." (Letter from President Faust, Oct. 3, 2013)

CORNELL UNIV. (N.Y.):

"The publicly-traded energy companies in our portfolio, for example, collectively have large research and development budgets committed to alternative energy strategies. **The top five energy companies have more than $20 billion committed to alternative and sustainable energy research and development.** Divesting from these companies would give us no ability as shareholders to influence the decisions that these companies make concerning a revised energy future." (Op-ed by President Skorton, Cornell Daily Sun, Apr. 15, 2013)

BROWN UNIV. (R.I):

"Divestiture would convey **only a nebulous statement** … without speaking to the technological and policy actions needed to reduce the harm … actions where Brown can make real and important contributions through teaching and research." (Statement from the president, Oct. 27, 2013)

UNIV. OF WISCONSIN:

"In a similar vein, many individuals involved in the environmental movement at the University told us that **they consider divestment either a red herring or a distraction** from the more important and difficult behavioral changes we need to consider down the road."(Report of the University Ad Hoc Committee on Fossil Fuel Use and Climate Change, Feb. 3, 2014)

UNIV. OF TENNESSEE:

"Last year, 90 percent of the endowment's payout went to supportive **scholarships, instruction, and research**. Eliminating a broad segment of the market from investment could hinder future funding of these endeavors." (Letter from Board of Trustees, Dec. 13, 2013)

BRYN MAWR COLLEGE (PA.):

"In fact, divesting from companies based solely on the amount of fossil fuel reserves they own ignores the extent to which they are investing in alternative energy sources and how environmentally friendly their practices are or could be in the future. … While divestment would hurt the College financially, **we don't believe it would have any impact** on the companies being targeted by your proposal." (Letter from Board of Trustees, Aug. 2013)

MIDDLEBURY COLLEGE (VT.):

"At this time, too many of these questions either **raise serious concerns or remain unanswered** for the board to support divestment. … Instead, we will focus on the positive differences Middlebury can make through its actions, in the best tradition of our institution." (Statement from the president, Aug. 28, 2013)