# Position Statement: Should WFAA divest its endowment from fossil fuels?

**by**

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**Brief Introduction and History of Divestment**

Before going into the history of divestment, it is necessary to understand what it is. In simple terms, divestment is the opposite of investment. It is the process of stockholders selling their stocks from an organization to influence them against performing certain activities that impact the social good. So, fossil fuel divestment is the selling of stocks that organizations or institutions have from companies that gain monetarily from the extraction of fossil fuels, natural gas, oil, and coal due to external pressure and reinvesting that money in cleaner energy alternatives, thereby reducing pollution.

The strategy of divestment started in the 1960s as a global response to the apartheid regime in South Africa. Anti-apartheid protests took place on campuses of many American colleges and universities. Soon protestors realized that these methods alone would not influence the South African government, so they found a more practical way to create an impact; divesting stocks of companies doing business in South Africa. They strengthened their cause by visually showing the oppression many South Africans faced. While the goal was not to have a sizable impact on the stock or market capital of the organization, it was a way to get the organization to stop doing business in South Africa, which would create pressure on the South African government and push them to make changes in the system.

In 2011, fossil fuel divestment campaigns started across campuses in the US, the birthplace being Swarthmore College. That same year, Hampshire College, the first to divest from South Africa, also was the first institution to divest from fossil fuels (Raji). When Seattle committed to divest its daily operational budget in 2012, it became the first city in the world to do so (Raji). Mid-2014, Stanford divested its coal endowment, valued at $18.7 billion, and Syracuse University, with the largest endowment, divested from coal, gas, and oil (Wines) (Howard). During the same time, financial corporations like Citigroup and Goldman Sachs announced their plans to invest in renewable and solar energy projects. The divestment announcement of the Rockefeller Brothers Fund in 2014 from the industry that gave them power and wealth was a symbolic move in the fossil fuel divestment movement (Vaughan). As of 2023, over 100 institutions have in some way divested from fossil fuels, with Princeton University being the latest entrant to the party (Castillo).

How do institutions end up investing large amounts of money in fossil fuels? Either through endowments or research funds. For example, the Wisconsin Foundation Association & Alumni Fund (WFAA), which is a lovechild of the University of Wisconsin Foundation (UWF); the gift-receiving and fundraising organization for the University of Wisconsin-Madison; and the Wisconsin Alumni Association (WAA), the organization keeping the alumni connected to their alma mater. So, the WFAA receives donations. Outside managers then oversee the investment process of this money in stocks, and the profits earned become additional revenue for the university (Katzenberger).

UW Madison's Faculty Senate and student government have urged WFAA to divest, but as the WFAA is an independent nonprofit organization campus leaders cannot call shots on how it handles donations. Since this process has been moving at a snail's pace, students and staff have looked for alternative ways to improve sustainability on campus. The Office of Sustainability (OS) has created a website to engage with students and submit their feedback to make them feel their opinion matters. OS' most successful student-led initiative, the Green Fund, offers financial aid and resources to support students' sustainability projects. Campus leaders are looking to invest in the Green Fund after it got a significant cut from a $3.2 million campus-wide solar-energy project investment (Katzenberger). The OS believes the success of such student-led initiatives will pressure the WFAA to divest. While the university is yet to make significant progress, these campus-wide sustainability initiatives are a step in the right direction.

**Section 1: Is divestment a symbolic or substantive change for combating climate change?**

An important consideration of this dispute is the impact of divesting and whether that impact creates substantive change or is purely symbolic. Within this discussion, we must decide the reality of potential substantive impacts and the positive and negative aspects of symbolic acts.

Currently, there is debate on whether Universities' divestment from fossil fuels can make legitimate changes to the fossil fuel industry. Can these divestments impact the industry in a way that forces sustainability-favoring changes to occur? Opinions differ on whether share prices of fossil fuel companies would be affected by these divestments. Some believe that it will lower share prices and indirectly "defund" the companies while others claim prices will be unaffected (Makowski). Some argue that the stocks being divested can then be repurchased by another entity. "Disinvesting because of ethical scruples about an industry creates buying opportunities for investors who don't share those scruples" (Jacoby) thus severely decreasing the tangible impact divestment can have on the fossil fuel industry.

There is no current data suggesting that there have been, or will be, significant direct impacts to the industry due to these divestments. It has been stated that "funds divested to date have been far too small to financially challenge the global fossil fuel industry and its financiers" (Bergman) In regards to the possibility that more universities joining the movement could increase substantive impact, there is a "high degree of uncertainty surrounding the effect of divestment on investor behavior, investor portfolios and the reaction of oil and coal companies" (Braungardt et al). Therefore, divestment does not seem to be a tool to create direct change in this industry, rather a social movement and political statement. This creates a symbolic impact rather than substantive change.

The symbolic nature of the divestment movement leads to discussion on whether these symbolic statements are valuable to the end-goal. Many people believe that the focus should be on making actual, tangible changes and not waste time and resources to purely make a statement. Divestment may make universities and those affiliated feel good about doing something, but what they are accomplishing is not actually addressing the problem, or making—in some people's opinions—a worthwhile impact. It is also important to consider the longevity of a symbolic impact. Paul Wilson, the chair of the department of engineering physics, stated "if we were to make the decision today to divest ourselves from fossil fuels, a month from now it would no longer be making any headlines. Focusing on those issues that have a lasting impact, and a growing impact, is more important" (Makowski).

On the other hand, we must acknowledge that symbolic action could be an important driver in creating more substantive changes. Divestment can foster a discussion and shift discourse about sustainability, specifically fossil fuels, that would not happen otherwise. Statements by respected institutions, especially in large numbers, can have a tremendous impact on public opinion and values. "It helps to catalyze climate change as an issue that needs to be addressed, and it takes away the social license that these companies have. It delegitimizes the holdings of those who own shares" (Greenfield). Divestment from fossil fuels could also mean re-investing in low-carbon technologies and other areas that can make progressive sustainable change.

Due to overall lack of substantive impact resulting from divestment at other universities, WFAA must decide whether the symbolic impact of divesting it's endowment from fossil fuels is powerful enough to accomplish sustainability goals and support institution values.

**Section 2: Is divestment a financially sound investment strategy?**

When considering the efficacy of divestment it is important to consider the financial ramifications that decision will have on the institution. In particular, UW-Madison is noted as investing approximately $125 million in fossil fuel companies. To this end, with such a large investment even minor annual returns would amount to millions or hundreds of thousands of dollars which are significant to research endeavors, facility maintenance, and faculty retention and acquisition.

Investment in fossil fuel-based assets is thought to present some risk, as fossil fuel-based technologies are gradually phased out in favor of so-called 'greener' technologies. Additionally, universities are not the only contributors to fossil fuel divestment, as over 1,500 institutions with assets approximately worth $40 trillion have committed to some manner of fossil fuel divestment (Stand.earth). The ramifications of divestment and risk perceivement are already being seen as ExxonMobil was removed from the Dow Jones Index in 2020 after being in place since 1928 (Lee). To this end, it is clear that the pervading influence carried by fossil fuel companies is continually waning. Thus, in this sense divestment would seem to be a sensible strategy for the WFAA to avoid what appears to be impending losses.

However, it is unclear if the removal of Exxon Mobil from the Dow Jones was any indicator of stock performance as it coincided with the onset of Covid-19, which universally saw losses across the market. Even if one were to attribute the loss primarily to waning influence, the stock of Exxon Mobil has been evaluated at more than $100 since Oct. 2022, approximately three times higher than its lowest point in 2020. Many other oil companies are observed to follow similar trends with increasing stock prices and higher reported quarterly profits every year (Hardin and Shea). Overall, companies such as Shell, Chevron, BP, and ConocoPhillips are seeing increases in profits despite social movements towards clean energy (Hardin and Shea). One could infer that divestment at this point in the market, while providing a large return in the short term due to high stock price would see an overall decrease in potential return over the long term.

This decrease in long term performance may be overstated, however, as divestment presents an opportunity to diversify portfolios that stakeholders would deem to be more socially responsible. Work done by Trinks et al. compared risk-adjusted returns on fossil-free portfolios against unconstrained portfolios, which included securities in companies that have some tangible involvement in coal, natural gas, and fossil fuel production. The differences in portfolio performance were compared retrospectively, and found that the divested portfolios did not significantly underperform compared to their unconstrained counterparts. The authors note that their work did not include additional financial costs that divestment might impose, “such as selection, transaction, and monitoring costs” (Trinks et al. 742).

Even so, the authors note that the underperformance from divested portfolios is more evident with portfolios that were less diversified. The WFAA portfolio is not made public, thus there is no conclusive evidence to illuminate the breadth of its investments which means divestment could noticeably impact its performance. At the same time, viewing published data from other universities shows that on average, 2-5% of all assets are invested in fossil fuel companies (Ansar et al.). Thus, university endowments are typically already fairly diversified away from the fossil fuel sector already. This would suggest that WFAA divestment from fossil fuels could be a viable investment strategy that would uphold the endowment managers’ fiduciary responsibilities, at least in retrospect.

**Section 3: How does morality and ethics play a role in the divestment from fossil fuels?**

Climate change has been a growing concern, and the spotlight is now on universities to determine how they should act to help. Is divestment from fossil fuels the way forward? An important aspect of answering this question is evaluating this position from a moral or ethical perspective. Should universities play a role when dealing with these global issues, if so to what extent, and what are the effects it may have on the university?

When analyzing the moral implications a university might have to divest from fossil fuels, one of the largest factors to consider is how the university's image may change. By divesting from fossil fuels, universities can signal their commitment to sustainable investing practices and demonstrate their leadership in addressing the climate crisis. Some argue that universities have a responsibility to consider the impact of their investments on the planet and future generations. This makes the divestment from fossil fuels a moral imperative rather than financial or symbolic decisions touched on earlier in this paper.

We can comparatively look at social responsibility in bigger organizations and how important it is to analyze the whole system when deciding to make changes in policies. An example of this would be if a university claims to be committed to sustainability and divests from fossil fuels yet they still rely on them in other areas. This can appear as greenwashing since they did not consider the whole system when making this change and can result in the university being seen as hypocritical and unethical. If a university is looking to take the moral stance on being a leader in sustainability, they must have a genuine, whole commitment to this practice specifically with their own investments in other areas.

This is working under the assumption that most stakeholders would be interested in a university that is a leader for sustainability, but another important consideration is the goal of that university from its conception. How does the university place the priorities of the stakeholders? How do they weigh the needs and wants of incoming students, with those developing the curriculums, and those who are making generous donations to the university? With businesses as an example, we know the main goal is to provide value to their shareholders, but how does one categorize the *true* goal of a university? Friedman states that, "institutions, as moral agents, have a moral obligation to not cause or contribute to harming others. Therefore, institutions have a moral obligation to not invest in practices destructive to our climate". Building from this, if a university is dedicated to new research, could they possibly be more morally/ethically implicated to invest resources that explore alternatives to fossil fuels and/or the impacts of them than other universities? Or if we look at universities that choose not to divest, how would that impact the trust they have developed with their community? If we look at this quote from Paul Wilson from UW Madison, he makes the moral argument that divestment from fossil fuels is a multi-faceted topic:

"Our lives are benefitting from fossil fuels—somebody rode in an ambulance today to the hospital powered by fossil fuels," he said. "There are deep moral questions that we should be grappling with—climate change is one of them, environmental justice from the fossil fuel industry as well as many other industries is another—but whether or not we should be blaming fossil fuel industry for all of it in itself and declaring it a moral bad is not the right way to go" (Makowski).

Overall, moral and ethical obligations within a university is not a decision that can be made focusing on just one element: divestment of fossil fuels. It must take into consideration the values of the university, while balancing both the communities and technology of the present and of those in the future.

**Section 4: To divest or not to divest?**

We believe that WFAA should divest from fossil fuels in a way to pave a path for a better future. When evaluating the financial implications of divesting, it was observed that divested portfolios did not underperform relative to those with fossil fuels. Although proof of substantive impact to the fossil fuel industry is limited, we believe that symbolic impact through shifting discourse and making a firm statement is predominantly beneficial for the movement away from fossil fuels. When combining the financial research with both the moral obligations and the symbolic nature of divesting from fossil fuels, it can create opportunities for research into alternative methods for fuel and energy development, product development and resource extraction. While recognizing the need for fossil fuels, we believe that prolonged investment exacerbates unsustainable carbon emitting practices.

We do make this statement with caution. The university must be aligned in their fossil fuel divestment strategies, emphasizing research on alternative energy resources so their values are aligned in all departments. This takes a holistic approach that would help WFAA demonstrate their leadership in social responsibility.

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