

Memorandum

To: Members of the University of Waterloo Board of Governors

From: Students concerned about investments in fossil fuels

Date: April 3, 2018

Subject: Our Request to the Board of Governors on Responding to the Responsible Investment Working Group's Recommendations

Purpose

The purpose of this memorandum is to share with the members of the Board of Governors (the Board) important points we would like you to consider as you prepare to vote on the final report and recommendations of the Responsible Investment Working Group (RIWG) on June 5th.

We are sharing these considerations with the Board at this time because when the vote takes place this June, many of the students having spearheaded the campus divestment campaign—one of the key topics examined by the Responsible Investment Working Group—will be away for the spring term or have graduated.

Before the vote is cast, we wish to express how important it is to us that the University of Waterloo reflect its values of sustainability and innovation through its investments. We want to be proud of our University of Waterloo degrees. We expect the university to enact these values, maintain its reputation as a leader amongst Canadian universities, and embrace the win-win opportunity that divestment offers. Support for divestment is strong and widespread across our campus: to date, over 100 faculty have signed a letter asking for divestment, and more than 600 students, faculty and alumni have signed a petition asking the university to divest its fossil fuel holdings.

Background: UW's Process Toward Divestment to Date

At their Annual General Meeting in November 2015—after organizing over the preceding winter and spring terms—Faculty of Environment students voted unanimously (minus one abstention) to divest their Endowment Fund (WESEF) from fossil fuels. Because endowment funds are not managed directly by each faculty, but by the University of Waterloo Board of Governors, this decision is still pending.

Then, in the spring of 2016, 68 University of Waterloo faculty (now 100 and counting) signed a letter to President Hamdullahpur and members of the Board urging them to assess the financial risks posed by climate change to the University of Waterloo's endowment and pension plans, commit to no new investment in fossil fuels, and develop a strategy to completely divest the university from holdings in the fossil fuel industry.

In 2017, following the urging of students and faculty and in line with a Provincial directive, the Board formed the RIWG to examine whether UW pensions, trusts and endowments are not only fiscally responsible, but environmentally and socially responsible, and preserve good governance. The RIWG will soon forward a recommendation to the Board for your consideration.

The Need for Divestment

Based on a partial disclosure of information from the UW Administration on May 8, 2017, we know that at least \$68 million of the university's investments—\$27.3 million from the student endowment fund—are in the top 200 global fossil fuel companies, and about 5% in tar sands companies (with some overlap). These fossil fuel companies include BP, Total, Exxon/Imperial Oil and Royal Dutch Shell, which are not only known heavy CO₂ emitters, some of which have participated in decades-long climate-denial campaigns.¹ Moreover, some of these companies are responsible for human rights

¹ (Dunlap & McCright, 2011)

violations,² massive oil spills,³ and corrupt practices.^{4,5} There are obvious environmental and ethical reasons why our University should not be investing in these firms.

However, the economic case for divestment is also very strong. Conservative estimates show that from 2011 to 2015 the University of Waterloo has realized losses of upward of 14% on fossil fuel investments made in pension, endowment and trust funds, totalling at least \$20 million. Our university is not alone in suffering losses by continuing to invest in fossil fuels. Corporate Knight's decarbonizer tool finds trillions in lost opportunity, perhaps most notably the Bill and Melinda Gates Foundation, which after rejecting calls to divest from fossil fuels, lost \$1.9 billion between 2012 and 2015.⁶

Continuing to invest in fossil fuels is financially risky, a point that has been emphasized by UW researchers. Jeff Rubin, for instance, says: "While a lack of disclosure of carbon holdings makes it difficult to assess fund-specific losses, one study estimated that the five largest funds in Ontario lost somewhere in the neighbourhood of CDN\$2.4 billion on their stock holdings of fossil fuel companies over the second half of 2014."⁷ Likewise, PhD candidate Truzaar Dordi's analysis found that the university lost \$20 million over 2011-15 by investing in fossil fuels as compared to investing in low carbon options.⁸ As Dordi notes, "Some may argue that the University should maintain its fossil fuel investments lest it lose out. However, the opposite concern – that keeping these investments is financially risky – may be the greater concern." Markets have already begun to respond to the riskiness of fossil fuel investment—fossil fuels are becoming devalued. We can assume this will intensify as governments and industries make further progress in reducing emission to meet the internationally accepted two degree warming limit of the United Nations' Paris Agreement.

One important final note: divestment does not breach fiduciary duty; it is not the application of an "ethical screen." We have heard this concern raised occasionally, rather fossil fuel divestment is one primary way to protect investments against financial risk.

Our Recommendations to Board Members

Students, faculty and alumni expect our money to be spent in ways that reflect our values, offer a secure financial return, and preserve our future. The case for extricating the University of Waterloo from investment in fossil fuels is compelling on both moral and economic grounds. Therefore, when the RIWG recommendations come forward, please read them with care.

We hope you will see recommendations that deserve support from the RIWG.

An enthusiastic "yes" vote, in our view, is only deserved if you see:

- a) real attention to climate change, the carbon budget, and the carbon bubble;
- b) a commitment to UWaterloo making no future investments in fossil fuels;
- c) a commitment to divesting the *endowment funds* from fossil fuels within the next five years;
- d) a commitment to divest the full portfolio, including pensions and trusts, in a reasonable, fixed time.

If instead of (d) you see:

- d') a commitment to ESG criteria for the investment of the pension plans and trusts that will actually influence investment decisions, and that pay due attention to climate issues,

a "yes" might still be warranted because the net effect of (d') will be *de facto* divestment because carbon energy is a poor long-term investment from both a financial and an ethical point of view.

Contact Information

If you require further information or want to get involved in the divestment effort, please email us at fossilfreeuw@wpirg.org.

² (Wiwa, 2015)

³ (Reed & Krauss, 2015)

⁴ (Goldenberg, 2015)

⁵ (June, 2013)

⁶ (Carrington, 2015)

⁷ (Rubin, 2016, p. 9)

⁸ (Dordi, 2017, <https://fossilfreeuw.ca/uw-investments/uw-potential-losses/>)

Tuesday, April 3, 2018

It's time for UW to divest from fossil fuels

OPINION 12:00 AM by Daniel Tyrie and Kaitlin Thompson Waterloo Region Record



Much to the dismay of students, the University of Waterloo has more than \$68 million invested in some of the world's most polluting companies, including Exxon Mobil, BP and Royal Dutch Shell. These companies are among the 50 that are responsible for 16 per cent of the temperature rise observed from 1880 to 2010 (NASA Goddard Institute for Space Studies).

The university has developed a Responsible Investment Working Group to provide the board of governors with recommendations to incorporate environment, social and governance criteria into investment decisions. The board of governors has its final meeting of the 2017-18 academic year on Tuesday. Fossil Free UW, a student-led organization, is calling on the board to recognize this growing divestment movement on campus and use this meeting to address divestment directly. We are joined by more than 600 students, faculty and alumni who have signed a petition asking the university to divest its fossil fuel holdings.

We are not alone. We are one of many student organizations across North America pushing our academic institutions to better represent our social values in a financially responsible way. Student-led divestment movements similar to ours have popped up at all major universities across Canada, including at the University of Toronto, the University of British Columbia and McGill University. Last February, Université Laval became the first Canadian university to divest its endowment funds from fossil fuel. Syracuse University in the United States saw returns of 12 per cent on its endowment fund after it divested from fossil fuels, demonstrating that the divestment decision is both environmental and fiscally responsible.

The divestment movement is not limited to the academic arena; it also has become increasingly common in the private sector. More than \$6 trillion has already been divested worldwide and the total is growing. In January, the mayor of New York City announced \$5 billion in divestment and a lawsuit against five major oil companies for their role in climate change. Lawsuits of this type had historically been limited to environmental groups and Indigenous activists. Norway's trillion dollar Sovereign Wealth Fund, the largest in the world, has proposed full divestment in a move that shocked world markets. These two major developments mark the divestment movement's transition into the mainstream and set a precedent of environmental accountability for major cities and nations around the world.

Divestment has become more appealing to mainstream actors not only for ethical and environmental reasons but also due to the financial implications. The fiduciary duty of an investor to achieve strong returns is no longer seen as a barrier to divestment, but rather a reason to divest. As green energy prices drop and climate consideration becomes a necessity, fossil fuel holdings have become increasingly risky. Research by PhD student Truzaar Dordi indicates that the University of Waterloo has already realized losses upwards of 14 per cent on fossil fuel investments made in pension, endowment and trust funds, totalling more than \$20 million between 2011 and 2015. This suggests that markets have already begun to respond to the riskiness of fossil fuel investment. Considering that significant government and private action has been taken to reduce dependence on coal fired plants, it is reasonable to assume that similar actions will be made in the oil industry in order to meet the internationally accepted 2 C warming limit.

The University of Waterloo prides itself on being a leader in sustainability and innovation. It has Canada's largest Faculty of Environment and its 2016 Sustainability Report found that 542 courses are focused on or include sustainability. In May, UW will host the United Nations Sustainable Development Solutions National Network for Canada. This kind of position puts the university in the international spotlight and is an amazing opportunity to lead by example, yet the university simultaneously is quietly investing in the fossil fuel industry that is responsible for devastating our climate and our future.

We expect the university to practise what it preaches and take action now. The University of Waterloo should maintain its reputation as a leader among Canadian universities, and embrace the win-win opportunity that divestment offers. This is our money and we expect it to be spent in ways that reflect our values, offer a secure financial return and preserve our future. UW students and faculty are demanding that the board of governors recognize the importance of divestment and represent the values of its constituents at Tuesday's meeting. This is the time to divest.

Daniel Tyrie and Kaitlin Thompson are fourth-year students at the University of Waterloo. Daniel is studying political science and economics; Kaitlin is studying environment and business.

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