A Brief Fossil Fuel Divestment Factsheet

Fossil Fuel Reserves and the Climate Change

Given: Every government in the world agrees, warming above a **2°C** is catastrophic
The Equation: **2,795** gigatons of CO_2 *sitting in reserves of fossil fuel companies*
- 565 gigatons of CO_2 *usable while staying below 2°C of warming*
= **80%** of fossil fuel reserves are **unburnable**

First, divestment can be pursued in a fiscally responsible manner. The proposed divestment resolution does not mandate immediate divestment, but urges a freeze on new fossil fuel investments, and then a gradual phase-out of all such holdings over the next five years. This five-year time period is ample time to create a diversified (and profitable) fossil free portfolio. Further, as the market grasps the carbon bubble equation above, and tighter regulations on carbon are implemented, up to 80% of fossil fuel reserves could be unburnable and unsellable. A company valued on a business plan to burn carbon could become a major risk to portfolios. Taking into account the carbon bubble and future regulations, fossil fuel investments represent risks that any prudent fiduciary should address.

Second, divestment will not significantly increase risk to portfolios. The Aperio Group, a respected group of investment advisors has shared their analysis[1] that screening for the top 200 fossil fuel companies only increased risk by an insignificant 0.01%--which can be attributed to statistical noise. Aperio Group's data tests on a hypothetical screened portfolio over 10 years shows 73% (of the time period) higher earnings compared to the Russell 3000. Trillium Asset Management's fossil free portfolio outperformed its benchmark, the S&P 1500, over the last full calendar year.

Third, divestment will not mean lower profits for portfolios. Fossil fuel stocks account the bulk of the energy sector, which is about 10% of the global equity market. As an investor, you can do without exposure to any given 10% of the equity market, and there are thousands of other profitable investment options beyond fossil fuels. The energy sector has underperformed the S&P 500 in the last five years—there is no reason to believe that the only profitable portfolio is a portfolio steeped in fossil fuels.

Finally, shareholder advocacy and engagement is not enough. While shareholder advocacy remains an excellent vehicle for improving corporate sustainability, there is an inherent conflict of interest for investors to advocate that coal, oil, and gas companies stop the production of fossil fuels, given that it is their core business. Investors might persuade a coal company to put more protective linings in the land pits where it stores coal ash, but there is little rationale for investors to ask a company to stop pursuing the very activity that generates its revenues. In addition, the lengthy timelines of shareholder advocacy are inappropriate for the urgency of this issue.

[1] http://www.aperiogroup.com/system/files/documents/building_a_carbon_free_portfolio.pdf