

Thoughts on fossil fuel divestment, two years after my white paper

Dr. Jim Griesemer, member of the University of Denver Board of Trustees and chair of the board's Task Force on Fossil Fuel Divestment, recently asked me if DU could post my [2014 white paper](#) on fossil fuel divestment to the university intranet.

I happily agreed, but considering the significant changes in both energy commodities, energy capital markets, and technology in the two years since I wrote it, I offered to add additional thoughts. With two years of reflection upon the concept of fossil fuel divestment, below is my 2016 introduction to the 2014 white paper.

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Two years ago I wrote the attached white paper on fossil fuel divestment, which I called at the time "A \$5trn challenge".

I believe that the arguments of my paper still stand, and that its fundamental theses are intact. Those are:

1. Institutional investors are less interested in fossil fuels companies, as they are in the capital markets attributes that those companies have: scale, liquidity, growth and yield.
2. Divesting from fossil fuels does not imply re-investing into renewable energy
3. Investors who divest, will likely re-invest into other sectors which embody some of the attributes listed above - though not many sectors have all of those attributes.

Much has changed in energy markets since then. A plunge in oil prices, and persistently low coal prices, have significantly impacted the market capitalisation of oil, gas, and coal firms. Technology firms, on the other hand, have mostly increased their market caps (with some exceptions).

As a comparison, the top five oil and gas company market caps have lost a collective \$265bn in two years. The top five technology company market caps have gained \$362bn in that same time:

Largest oil and gas firms (by market cap)	August 2014 market cap	August 2016 market cap	% change
ExxonMobil	\$425bn	\$360bn	-15%
Shell	\$268bn	\$204bn	-24%
Chevron	\$246bn	\$190bn	-23%
PetroChina	\$238bn	\$191bn	-20%
Total SA	\$153bn	\$120bn	-22%

Largest technology firms (by market cap)	August 2014 market cap	August 2016 market cap	% change
Apple	\$588bn	\$583bn	-1%
Google	\$400bn	\$547bn	+37%
Microsoft	\$360bn	\$453bn	+26%
IBM	\$194bn	\$155bn	-20%
Facebook	\$193bn	\$359bn	+86%

Note: nominal dollars

Market forces - acting upon the hydrocarbon price signals - have had much more impact on fossil fuel prices than any divestment campaign could have had in the same time. That is not to say that increased investor scrutiny, in particular from such well-respected institutions as Carbon Tracker and the FSB Taskforce on Climate-Related Financial Disclosure, have gone unnoticed by the market. Rather, the market, given a price signal, can and will react quickly. Coal producer bankruptcies, in that sense, are divestment of capital via value destruction.

A final thought for those in the DU community interested in fossil fuel divestment: I believe that a university's stance on divestment will depend largely on how the investors managing its endowment view themselves.

I believe that most are proud of their role as expert investors, are proud of their independence, and view return on capital (and not responding to activism) as their primary objective.

If a university's endowment investment officers and its Trustees decide against divestment, then they should consider disclosing how their portfolio of fossil fuel equities and debt have fared over the past five, 10, and 20 years. Have the dollars invested in oil, gas, and coal equity and debt outperformed any number of ex-fossil fuel indices over those same intervals? And if those investments have underperformed, what is the net present value of that underperformance relative to an ex-fossil fuels portfolio?

University investment officers and Trustees can and do argue against fossil fuel divestment, on the grounds that fossil fuel company securities are part of an above-market return investment strategy. If that argument is made, then I believe that stakeholders deserve transparency about that aspect of the university investment portfolio, its holdings, and its returns.

Fossil Fuel Divestment: a \$5 Trillion Challenge is available for public download [here](#).