

How can Rathbones help  
universities and colleges navigate  
the fossil fuel divestment debate?



Rathbones  
Look forward

“The clear and present danger of climate change means we cannot burn our way to prosperity. We already rely too heavily on fossil fuels. We need to find a new, sustainable path to the future we want. We need a clean industrial revolution.”

*Ban Ki-moon, former United Nations Secretary-General*

The value of investments and the income from them may go down as well as up and you may not get back your original investment.

## Foreword

Under pressure from both student and staff bodies, an increasing number of global educational establishments have joined the growing list of organisations implementing policies to divest from fossil fuels.

Since 2014, concerted campaigns calling for divestment have emerged at numerous UK universities. By the end of 2016, announcements from a number of institutions had brought the total number of UK universities with some form of divestment policy to 43. This represents around a quarter of all UK universities and accounts for some £10.7 billion in assets.

It is true to say that a number of institutions are still evaluating the arguments for and against divestment with some favouring instead a combination of selective divestment with targeted company engagement.

But equally, UK educational establishments that are yet to make any form of commitment will almost certainly face renewed calls to do so from their student bodies and staff, while those that previously rejected action may be subject to further pressure from divestment campaigners.

## Introduction

Rathbone Investment Management is able to offer a range of solutions to help institutions address this issue. Our ethical and sustainable investment team, Rathbone Greenbank Investments, is one of the UK's leading managers in this area. We combine investment management with in-house ethical and sustainability research, making us the ideal partner to help you respond effectively to the varying demands of different divestment campaigns.

Our in-depth knowledge of the issues, together with our sector-leading engagement work, means that we are able to offer a range of responses to the divestment question, helping you to successfully navigate this complex issue.

Rathbone Greenbank has worked with a number of individual and charity clients to develop tailored responses to this issue, helping them to meet both their financial and ethical mandates.

## What is fossil fuel divestment?

How you define divestment dictates your available responses. At its most basic level, divestment is the full or partial disposal of specific stocks or sectors from an endowment fund or investment portfolio. But it is important to define the limits and scope of divestment – and the rationale behind any decision.

For many, fossil fuel divestment is understood simply as the sale of fossil fuel assets from a

portfolio, principally covering equity holdings in companies engaged in coal mining and oil and gas production.

This may be limited to the most carbon-intensive examples, such as those involved in the extraction of thermal coal or tar sands. But the scope of this decision may also extend to other sources of fossil fuels, including fracking, or to related industries such as exploration or refining.

## Why divest from fossil fuels?

Historically, avoidance of the coal, oil and gas sectors has been undertaken from an ethical or moral perspective, based on the environmental and social harm caused by the extraction and use of fossil fuels.

Today, however, strong financial arguments are being made from a portfolio risk management perspective, inspired largely by the Carbon Tracker Initiative's influential series of reports, published under the title of *Unburnable Carbon*.

Based on the concept of a global carbon budget, which constrains the amount of

carbon that can be safely burned to minimise the chance of exceeding 2C of warming by 2050, it was arguably this analysis that contributed most to shifting the climate change debate into the financial mainstream.

It presented one of the first cogent arguments that a 'carbon bubble' exists in the valuations of fossil fuel companies. A reduction in the value of a company's stated reserves, due to the risk of those assets becoming 'stranded', could materially affect its balance sheet and lead to a downgrading of its market valuation.

## How can you respond?

Investors have a range of options available; importantly, the decision to divest does not need to be 'binary'. We can help you find the right solution to suit your specific needs.

First, there is the option of full divestment from oil and gas producers and coal mining companies. This is relatively straightforward to execute, but can have implications for portfolio performance relative to mainstream market indices.

Next, there is selective divestment from the most financially vulnerable companies, such as those involved primarily in exploration, or in projects with the highest carbon intensity or the most extreme environmental impacts, such as tar sands. These often involve the highest degree of capital expenditure and the lowest returns on investment, making them most at risk of becoming stranded.

Alternatively, an extension of this approach uses a 'best of sector' strategy. This considers the full spectrum of social and environmental risks facing companies and only invests in those demonstrating a consistent ability to manage those risks. These companies should also be willing to respond to the climate change agenda through a clear decarbonisation strategy and investment in clean alternatives.

Finally, for many, engagement with fossil fuel companies, which provide much of the energy we all use every day, can be a powerful agent for change. There is an argument that the engaged investor who remains invested is well-placed to conduct a constructive dialogue with company management to achieve a change of direction in the fight against climate change.

## How can investment play a role?

A wider aim of the divestment movement is not simply to encourage the sale of holdings in fossil fuel companies, but to reallocate capital to companies involved in the creation of a low-carbon economy.

Many institutions have chosen to allocate a proportion of assets to such alternatives.

As an experienced sustainable investment manager, we have the expertise to recommend alternative investments in the areas of clean energy and energy efficiency that suit your risk profile and financial objectives.

## What are the financial implications?

This is an important question, not just for those facing calls for divestment, but for all seeking to implement aspects of ethics or sustainability within their investment portfolios.

Your response does not mean you have to choose between achieving your financial objectives and responding to campaigns – you can do both.

We aim to provide you with consistent returns over the longer term whichever response you choose to adopt. Our investment process

is designed to create a well-balanced and diversified portfolio of investments that meet your income and capital requirements year after year.

Many understand fossil fuel divestment to be necessarily accompanied by complementary investment in renewable energy. But do these asset classes automatically substitute for each other, and what are the relative risk profiles of these assets? These are important questions, which we can help you to address.

## How can we help?

Rathbones is able to offer you a range of solutions depending on your preferred course of action.

If a straightforward approach, based on simple avoidance or divestment from specific sectors, is all that is required then this can be managed by our team of charity investment specialists.

If a more complex policy is needed, using a combination of 'hold and engage', positive investment or 'best in class' strategies, then this is the particular specialism of Rathbone Greenbank. This team combines bespoke investment analysis and portfolio management with its own in-house ethical and sustainability research, enabling effective and targeted engagement on behalf of investors.

The team has over a decade of experience in tabling shareholder resolutions at fossil fuel companies, and has been at the forefront of lobbying companies to respond to the issue of climate change. In addition, Rathbone Greenbank can enable you to use your assets to engage in dialogue with important stakeholders. Regular reports are provided on the progress of engagement work, along with advanced reporting to enable clients to see the carbon footprint of their portfolio and its exposure to positive investment and sustainable development themes.

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**James Brennan**

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For more information, please visit [rathbonegreenbank.com](http://rathbonegreenbank.com)  
Rathbone Greenbank also has specialist teams in London and Liverpool.

## Important information

The value of investments and the income from them may go down as well as up and you may not get back your original investment. Past performance should not be seen as an indication of future performance. Changes in rates of exchange between currencies may cause the value of investments to decrease or increase. Information valid at date of presentation.

Tax regimes, bases and reliefs may change in the future.

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