Statement on Divestment from Fossil Fuel Companies

Wednesday, February, 12th, 2014 *Speeches and Messages*

February 12, 2014

Dear Members of the Tufts Community,

Since early last year, our community has engaged in substantive and thoughtful deliberations about the university's role in helping to mitigate climate change and whether Tufts should stop investing in fossil fuel companies.

A group of students submitted a written proposal calling for divestment in February 2013. The Tufts Community Union Senate passed a resolution around the same time, asking the Board of Trustees to refrain from any new investment in fossil fuel companies and to ensure that none of Tufts' assets includes holdings in 200 public companies with the highest carbon reserves, as determined by the Carbon Tracker list. A student referendum passed last fall, urging the university to divest from fossil fuel companies "provided that such action will not negatively affect the financial status of the university." Also last semester, 200 alumni and 45 faculty members signed petitions in support of divestment.

I welcome this kind of open discussion. It underscores our shared commitment as an institution to address the pressing issues of our times, and it reinforces a core value of our community, one that encourages and embraces a diversity of viewpoints.

In response to the widespread advocacy for divestment, in April 2013 I established the Tufts Divestment Working Group, comprising students, faculty, administrators and trustees. I asked the group to consider divestment as well as two other issues: whether the university should establish a fund focused on sustainable investing and what other steps we might take to address climate change.

The 11-member group was led by Trustee Laurie A. Gabriel, J76, who chairs the Board's Investment Committee. They met seven times in person and via conference call and produced a detailed report that the members ratified.

At its meeting on February 8, the full Board of Trustees discussed the report at length and accepted it. The report makes three primary recommendations for Tufts:

- Refrain from divestment at this time, primarily because of the significant anticipated negative impact on Tufts' endowment.
- Pursue the establishment of a Sustainability Fund, both as a statement of the direction in which we would like to see the university move eventually and to test the feasibility of this kind of investment.
- Pursue other courses of action to address climate change, such as expanding curriculum and research on these issues and taking a leadership role to create a collective "presence" on climate change.

I encourage you to read the working group's full set of recommendations.

Our Fiduciary Responsibility
In developing its recommendations, the working group conducted a thorough examination of the complex

issues surrounding divestment from multiple perspectives. While there are members of our community who do not agree with every recommendation—some members of the working group among them—this is the correct direction for Tufts at this juncture.

As an institution, it is incumbent upon us to achieve a balance between our fiduciary responsibility to maximize our resources to ensure the long-term welfare of the university and to affirm by our actions the values that define us, among them our longtime leadership position on environmental and social issues.

For example, in the late 1980s, our Board of Trustees voted to divest from companies doing business in South Africa. While the statement made with that decision was significant, the financial impact on the endowment was small. Since that time, however, the structure of the Tufts Endowment Fund has changed significantly in response to evolution in the markets, to changing standards for investing and to the significant growth of our endowment, which gave us access to new and advantageous investment approaches.

The university no longer invests directly in individual companies, as it did in the ’80s. Instead, our endowment, like those at many other universities, makes extensive use of commingled or pooled funds, in which multiple investors hold a “slice” of an investment portfolio in proportion to the value of their individual investments. Mutual funds are one example of these kinds of investments.

Investments in commingled funds offer Tufts the benefits of scale, access to premier investment managers and broad portfolio diversification. However, one drawback of this investment structure is that investors cannot dictate the guidelines of the commingled fund; they can only choose whether or not to invest under guidelines specified by the fund manager. Because of this “in-or-out” choice, if we decided to begin a process of divesting today, Tufts would have to turn over about 60 percent of its current investments and find substitute managers willing to invest in a fossil-fuel-free approach. Although socially responsible investing is developing, the Tufts Divestment Working Group concluded that replacing 60 percent of the endowment with these managers is not feasible at this time because of the significant impact on the diversification and risk/return profile of our investment portfolio.

The Risks for Tufts

Much research has been done about whether divestment succeeds in changing corporate behavior or influences the moral or policy issue that is the goal of such action. Generally, there is scant evidence that divestment has affected the former, and mixed evidence on the latter, except in the case of apartheid in South Africa, where college and university divestment were cited as important by Nelson Mandela and F.W. de Klerk.

Other studies have produced widely divergent conclusions about the financial impact of divestment on institutional investors. For this reason, the Tufts Divestment Working Group asked the university’s Investment Office to conduct a rigorous analysis of what would happen to our endowment if we divested from fossil fuel companies. Even the most conservative model showed that the endowment would experience a significant loss of return—$75 million in market value over the next five years—in large part because of our investments in commingled funds.

The endowment provides a critical piece of Tufts’ annual operating budget, supporting financial aid, department budgets and research programs, among other key components of our academic mission. Spending from the endowment is directly tied to its market value.

To put the projected impact in perspective, $75 million would provide endowment income to fund scholarships for 100 undergraduates or annual stipends for 125 Ph.D. students, or fund the entire 2012 state appropriation for the Cummings School of Veterinary Medicine.

In short, in today’s environment, divestment would likely result in a significant reduction in operating funds and would have an immediate adverse impact on the educational experience at Tufts. It would not be prudent to expose the university to that kind of risk at this time. We will, however, continue to examine the feasibility of divestment in the future.

Our Commitment to Sustainability

The decision to forego divestment at this time does not mean that Tufts will retreat from its role as an active steward of the environment, both on our campuses and in the wider world. The Tufts Strategic Plan reinforces our commitment to manage our resources effectively and achieve our sustainability goals, among other initiatives.

To advance those goals, I have asked the Tufts Investment Office to develop a new Sustainability Fund that, if successful, can be expanded to more of our investments over time.

In the meantime, we will use our classrooms, laboratories and intellectual capital to examine fossil fuels and other environmental issues as well as take further action to reduce our own carbon footprint. The recommendations of the Tufts Divestment Working Group and the goals outlined by the Tufts Sustainability Council in its report last May provide us with an ambitious green agenda that will lead to measurable, positive outcomes.

We will explore ways to increase our focus on the critical issue of global climate change, including enhancing the curriculum as well as faculty and student research in the field. We will seek opportunities to educate elected officials and others on the impacts of climate change and the need for changes in energy policies.

I am deeply grateful to Laurie Gabriel and the entire Divestment Working Group for their commitment to these issues and the careful thought that went into their recommendations. Their dedication reflects the very best of Tufts University.

Sincerely,

Tony Monaco