Memorandum

To: Members of the University of Waterloo Board of Governors

From: Students concerned about investments in fossil fuels

Date: June 5, 2018

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

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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).

We appreciate the time and effort the RIWG put into this report, yet these are important decisions that deserve careful thought. Given that the university community only has had four working days to review the document we are disappointed to learn that the Board is moving ahead on this decision – especially at a time when most students are away for the summer. A similar situation happened when the Faculty of Environment students asked for their fund to be divested. This is not the collaborative process we had been promised when the RIWG was first struck.

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 in innovation and sustainability 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 630 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 has shared its recommendations with the Board for your consideration, and unfortunately they have not chosen to recommend divestment.

The Need for Divestment

Based on a partial disclosure of information from the UW Administration on May 8, 2017, we know that <u>at least $68 million</u> 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 CO_2 emitters, some of which have participated in decades-long climatedenial campaigns.[1] Moreover, some of these companies are responsible for human rights violations,[2] massive oil spills,[3] and corrupt practices.[4,5] There are obvious environmental and ethical reasons why our University, the new Canadian lead for the United Nations' Sustainable Development Solutions Network, should not be investing in these firms.

The economic case for divestment is also very strong. 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."[6] PhD candidate Truzaar Dordi's analysis found that 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, by investing in fossil fuels as compared to investing in low carbon options.[7] 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."

Our university is not alone in suffering loses 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.[8] 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.

The RIWG report finds "sectoral divestment of fossil fuels or any other sector is currently seen to be neither intrinsically effective nor advantageous", yet current investment practices are losing money, indicating that the status quo is also neither effective nor advantageous. The RIWG is also concerned that divestment breaches fiduciary duty. Rather, divestment is not the application of an "ethical screen;" 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 consider them with care.

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,
e) a commitment to researching more thoroughly current losses UW portfolio is currently experiencing under the current fossil fuel investment regime,

a "yes" might still be warranted because the net effect of (d' and e) 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.

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1 (Dunlap & McCright, 2011)
2 (Wiwa, 2015)
3 (Reed & Krauss, 2015)
4 (Goldenberg, 2015)
5 (June, 2013)
6 (Rubin, 2016, p. 9)
7 (Dordi, 2017, https://fossilfreeuw.ca/uw-investments/uw-potential-losses/)
8 (Carrington, 2015)