To Divest or to Engage?

A Case Study of Investor Responses to Climate Activism*

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Abstract

A dilemma faced by an increasing number of investors is whether to divest from environmentally damaging businesses or whether to enter into a dialogue with them. This predicament now has its epicentre in Cambridge, England, where the ancient University of Cambridge faces great pressure from students and staff to respond to the threat of climate breakdown. Having already received two reports on its approach to responsible investment, the university has appointed a new chief investment officer (CIO) who, alongside University Council and the wider university community, needs to consider the question of whether to divest from or to engage with fossil-fuel firms. What would be the financial effects of each choice, and what would be the outcome in terms of environmental impact? Our case describes the background and the research behind the debate. The new CIO and her colleague, the chief financial officer, reflect on both sides of this debate as they consider how to advise University Council. In contrast with other *Journal* articles, we do not propose solutions. Instead, we ask you, the reader, to consider the arguments and to take a position.

Key Findings

- Climate activism has accelerated and is supported not only by students but by respected scholars in many disciplines. This paper represents a case study of the debate over divestment and engagement at one of the world's leading universities where there are also sizeable endowment funds under management.

- The paper reveals how pressures upon institutional investors to respond to climate activism can accelerate. Investment professionals need to understand the forces for change. A head-in-the-sand response is counter-productive.

- Changes in investment policy should be evidence-based. We summarise relevant research and challenge the reader to form her own view on the choice between divestment and engagement.

Keywords

Climate change, responsible investing, fossil fuel, ESG, activism, endowments, portfolio management

JEL codes

G11 (Investment Decisions), M14 (Social Responsibility), Q54 (Global Warming)

It was January 2020 and Tilly Franklin, the incoming chief investment officer (CIO) of the Cambridge University Endowment Fund, had just arrived at the Old Schools, the University of Cambridge's administrative buildings on cobblestoned Trinity Lane. She was there to meet

Anthony Odgers, the University's chief financial officer (CFO), to discuss the University's response to the fossil fuel divestment movement. In September 2018, after a decade of excellent investment performance, the previous CIO had resigned to take up a new position outside the University. An article in the *Financial Times* (**Exhibit 1**) reported this departure, along with that of most of the investment team, against a background of ongoing pressure from students concerned about climate breakdown.

Ms Franklin, an alumna of Jesus College, Cambridge, and London Business School, had previously served as Director of Investments and Head of Private Equity at a large family office, Alta Advisers, after gaining earlier experience with McKinsey and Apax Partners. Mr Odgers, an alumnus of Gonville & Caius College, Cambridge, also had a background in finance, including a 20-year career in investment banking followed by six years at UK Government Investments.

Having been in post for only three years himself, Mr Odgers had heard from an increasingly disgruntled and vocal group of students and faculty members. Ms Franklin was also well aware of the extent of this dissatisfaction, having sat on the University's Investment Board and the investment committee of Jesus College for several years. She had also previously been a member of the University's Ethical Investment Working Group, which had issued its report along with recommendations in 2016. Together they now had to form a view about how to deal with fossil fuel investments and climate breakdown in the context of both the endowment fund and the University's other activities, and to present their case for consideration by University Council. Both shared student and staff concerns around the climate crisis; both wanted to bring to Council a solution that would have a meaningful effect on climate change mitigation, not just pay lip service to the issue.

BACKGROUND

The University of Cambridge, founded in 1209, is one of the oldest and most reputable universities in the world. With around 20,000 students and 8,000 academic staff members spread among 31 independent colleges, it is a sprawling institution with a complex governance structure. At the centre of this structure is Regent House, the principal governing body of the University. This body, comprising over 3,000 academic and senior administrative staff, is charged with approving, amending or rejecting proposals relating to University legislation, major building projects, senior academic posts, and financial reports. It also has the right to host discussions and to elect members of University Council. The latter is the principal executive and policy-making body, with overall responsibility for the University's administration, mission, planning, and resource management.

In 2007, the University took steps to create an internal investment office to manage the Cambridge University Endowment Fund (CUEF), worth £900 million at the time, with advice from David Swensen, CIO of the Yale University endowment fund. The endowment had previously been managed externally starting in 1958. CUEF's long-run objective is twofold: to achieve an average annual rate of total return, net of costs and before taking into account distributions, equal to UK Consumer Price Inflation (CPI) + 5% and to follow a smoothed distribution policy centred around 4% per annum. As of June 2019, CUEF comprised £3.4 billion in assets under management (AUM), the majority of which is drawn from the University's endowment and the remainder from the Cambridge Trust, the Gates Trust, and a

minority of the 31 colleges. The majority of the colleges, including Trinity with over £1 billion in AUM, manage their endowments outside of CUEF.

Like Yale, Cambridge manages its assets mainly through external managers, selected for their capacity to generate outperformance. The use of passive investments is restricted to transitional periods while looking for new managers. In June 2019, the largest asset class in the CUEF portfolio was Public Equity, with a 59% allocation, followed by Private Equity with 12%, Real Assets 9%, Absolute Return 8%, Fixed Interest and Cash 7%, and Credit Strategies 5%. Asset allocation is relatively stable over time. CUEF invests in a diversified portfolio of around 50 significant managers. To date, manager turnover each year is typically much less than 20% and is mainly driven by changes in asset allocation and portfolio growth. The largest manager has between 5 and 10% of total assets. Usually, the endowment is offered full position transparency by their managers and knows exactly what their strategy is. On the equity side, they are mainly deep fundamental managers. CUEF invests via separate accounts with about half of the public equity managers, and through commingled funds with the rest. There is a preference for separate accounts; however, these are sometimes more expensive, and are not offered by some managers. In the case of UK real estate, there are tax advantages to CUEF investing directly. In contrast, CUEF holds virtually no direct equity investments.

STUDENT AND FACULTY ACTIVISM

Cambridge's fossil-fuel divestment movement started in 2012-13 with the Cambridge University Socially Responsible Investment Campaign (CUSRIC). In early 2014 the group changed its name to Positive Investment Cambridge (PIC) and widened its focus from pure divestment towards the pursuit of a broader range of tactics across all asset classes. A year later, the Cambridge Zero Carbon Society re-launched itself with a focus on fossil fuel divestment, perhaps filling the void left by CUSRIC's transition to PIC.

In 2015, PIC passed "positive investment" resolutions within the Junior Common Rooms (JCRs), representing undergraduate students, of all the colleges. They proceeded to collect over 300 signatures from Cambridge faculty members in support of a Regent House Grace requesting the creation of a Working Group "to review the ethical and environmental impact of the University's investment portfolio". A Grace is a formal proposal brought before the Regent House, sanctioned by the Council and published in the *Cambridge University Reporter*. Signatories to the PIC Grace included Astronomer Royal, Lord Martin Rees; Nobel Laureate and President of the Royal Society, Venki Ramakrishnan; Chief Scientific Adviser to the UK Department of Energy and Climate Change, David MacKay; and distinguished statistician and Fellow of the Royal Society, Professor Sir David Spiegelhalter.

PIC approached the University administration before submitting the Grace, reaching agreement on the terms of reference of the proposed Working Group. The Ethical Investment Working Group was formed in 2015 and released its report and recommendations in June of the following year (**Exhibit 2**), including changes to the University's Statement of Investment Responsibility (**Exhibit 3**). The release of this report coincided with a resurgence of the divestment movement at Cambridge, and in 2016 a Zero Carbon Society petition in favour of fossil fuel divestment garnered nearly 2,400 student signatures. In the following year, elected

representatives from the Cambridge University Students' Union (CUSU) voted unanimously in favour of a resolution on divestment.

Further JCR resolutions and petitions followed, with high-profile support from key University figures such as former Archbishop of Canterbury Rowan Williams and the UK Government's former Chief Scientific Advisor, Professor Sir David King, who had both signed the earlier PIC letter as well. This process culminated in a pro-divestment Grace that passed in January 2017 with 140 faculty signatories including mathematician and Fields Medallist, Professor Sir Timothy Gowers; conservation scientist and Fellow of the Royal Society, Professor Andrew Balmford; and communication-systems expert and Fellow of the Royal Academy of Engineering, Professor Jon Crowcroft. In response the University adopted the Grace as advisory and created the Divestment Working Group (DWG) to examine the issue in more detail. This decision was greeted by an open letter from 360 academic staff, including respected chemist and Fellow of the Royal Society Professor Sir Tom Blundell and award-winning writer Robert Macfarlane, arguing for divestment (**Exhibit 4**).

In 2018, the DWG released its report and recommendations (**Exhibit 5**), the majority of which were approved by University Council and which included a "considered divestment" approach. Pro-divestment student groups thought this response to be inadequate and engaged in protests against the University administration and the investment office. Not long afterwards, the CIO, Nick Cavalla announced his departure together with other members of the investment team.

THE WORKING GROUP REPORTS

The 2015 Ethical Investment Working Group had been tasked with investigating how the University might incorporate ESG issues into its investment practices and Statement of Investment Responsibility. The Working Group solicited written commentary and the testimony of 18 witnesses with particular subject-matter expertise. The report revealed that CUEF had no direct or indirect exposure to investments in tar sands and negligible indirect exposure to thermal coal. This formed the basis of much of the media response (**Exhibit 6**), although the portfolio had only ever had *de minimus* exposure to either sector. The preamble to the recommendations made particular note of the issue of climate change, saying that Cambridge University's (2018) Working Group "recognises therefore that engagement with fund managers may include such considerations and involve strategies, where feasible, to divest progressively, consistent with the expected performance of the portfolio" (p.8). The recommendations included improved communications and mechanisms for input from stakeholders; use of the University's research expertise in the investment office's approach to ESG; engagement with fund managers as well as investee companies; exercising proxy voting rights; publication of an open letter to fund managers from the CIO and the Vice-Chancellor; and consideration of ESG concerns across all asset classes. Changes to the Statement of Investment Responsibility included the duty to engage with fund managers and investee companies as well as alignment between the University's values and its investments in the non-operational estate, University spin-outs, and other such investments.

The Divestment Working Group report in 2018 was, at 52 pages, almost three times the length of the previous Working Group's report. Its overarching conclusion was that the University should pursue "considered divestment" alongside enhanced engagement with fund

managers and companies themselves. The Working Group further recommended that the University decarbonise its own estate; makes best use of its research capability to address the climate crisis; join the International Investors Group on Climate Change (IIGCC) and the UN Principles for Responsible Investment (PRI) or equivalent advocacy bodies; invest 10% of CUEF's holdings in ESG funds; create an ESG officer position; improve the transparency of the investment office; establish a new centre to coordinate the University's academic work on climate change; and adopt a firm divestment mandate for coal and tar sands, directly or indirectly held.

WIDER CONTEXT

Since inception in 2012 the fossil fuel divestment movement has become a global force. By September 2019, 1,117 institutions representing US$ 9.9 trillion in AUM were said to have committed to fossil fuel divestment (GoFossilFree.org), well beyond the extent of divestment in the case of Apartheid South Africa or tobacco (Ansar, Caldecott, & Tilbury, 2013). To date, 76 UK universities are reported to have made divestment announcements in one form or another (PeopleAndPlanet.org). [1]

Divestment campaigns are active at all of Cambridge's peer institutions, including Oxford, Harvard, Yale, Stanford, and Berkeley. Of these, Stanford has divested but only from direct investments in coal; Oxford committed to divestment from coal and tar sands but again only with regard to its direct holdings (Oxford University, 2015); and Yale divested from direct holdings in coal and tar sands, with moves towards partial divestment elsewhere in its portfolio (Schick, 2016). These institutions typically instruct fund managers to exclude a number of specific listed companies. Yale's CIO, David Swensen (2014), also famously sent a letter to fund managers that garnered attention among peer institutions for its efforts to improve the managers' ESG analysis and reporting. Most of these institutions have some form of permanent responsible investment or shareholder engagement committee that advises on exclusions or proxy voting decisions; usually these committees include some combination of faculty members, alumni, students, administrators, investment team members, and external experts.

Among other large UK endowments, the Church Commissioners, which manages £8.3 billion of the Church of England's assets, are widely recognised as a leader in active ownership. They have played a high-profile role in collaborative shareholder engagements with companies such as Exxon, BP, and Shell, securing climate disclosures and commitments in some cases. Close to home, a few of the Cambridge colleges – Clare Hall, Downing, and Queens – have made commitments to divest in one form or another. Several others have embraced responsible investment in other ways. Pembroke College adopted a responsible investment policy co-written with PIC and King's College invested in Impax, a fund manager with both Socially Responsible Investment (SRI) funds (public equity) and impact funds (primary market investments such as venture capital or seed funds). In 2019, Jesus College also embarked on a project to incorporate positive investment principles into its investment practices in addition to divesting all its direct holdings in oil and gas.

[1] Pro-divestment groups typically demand exclusions from an investor's portfolio covering the top 200 listed coal, oil, and gas companies (GoFossilFree.org/top-200/).

TO DIVEST OR TO ENGAGE?

The University and its Colleges share a consensus on the need to mitigate against the adverse impacts of climate breakdown. The question is how best to achieve this: to divest from fossil fuel companies or to engage with them as shareholders in a concerted effort to change their behaviour. The evidence on both sides is still being accumulated. In the case of South Africa in the 1970s and 1980s, the divestment movement had little impact on share prices and the effect on the cost of capital of South African firms was shown to be negligible (Teoh, Welch, Wazzan, 1999). However, it has been credited for stigmatising the Apartheid regime and, in so doing, helping to bring about its demise. Indeed, many proponents of divestment see it as a tool to affect social discourse rather than stock prices, with the aim of influencing government policy, industrial development and corporate strategy. On the other hand, it is possible that divestment can have unintended consequences and reward the managers of firms on the sharp end of divestment campaigns (Davies & Dickersin Van Wesep, 2017). As for investors in "sin stocks" such as tobacco and alcohol, the long-run empirical evidence suggests that these stocks have outperformed the market (Dimson, Marsh, and Staunton, 2015). That said, there is reason to believe that divestment applied to other asset classes could have an effect on fossil fuel companies; decreases in primary market investments such as those in venture capital, private equity, or bond issuances can affect companies' financing (Quigley, 2020).

Shareholder engagement is difficult to research. This is primarily due to the qualitative nature of engagements and the challenge of attributing successes or failures to particular engagements or owners. Academic work by Dimson, Karakaş and Li (2015, 2020), based on two of the most extensive shareholder engagement datasets available, suggests that there is evidence for modest outperformance after successful engagements and that collective engagements with lead investors from the target company's home country can be particularly effective. Some argue that divestment and engagement can be combined to good effect, following the recommendations to the Norwegian sovereign wealth fund by Dimson et al (2014) to pursue such a twin-track strategy. In 2016, FTSE Russell launched a Climate Balanced Factor Index that was used in conjunction with active ownership – and exclusions if engagement is unsuccessful – for managing the Legal & General Investment Management (LGIM) Future World Fund.

Though large by UK standards, Cambridge's endowment is modest compared to those of its peers. Whereas Harvard's endowment is valued at US$ 39 billion (fiscal year 2018), CUEF's assets are just over one-tenth this size. Yet CUEF has achieved returns significantly ahead of passive index-matching. It has done this by following a fund-of-funds approach that, over the period during which it was run by the previous CIO, delivered substantial sums for the University's research and development.

A significant contributor to this strong performance was the ability of the Investment Office to successfully identify and gain access to managers that are typically oversubscribed and reluctant to accept new investors. If CUEF were to constrain the managers' investment options by insisting that certain stocks, identified by the University, must be avoided, the fear is that some managers would be unable or unwilling to accept the University's money. This could have the result of restricting the number and quality of managers from which CUEF could choose and potentially lowering overall returns. Alternatively, whilst some fund managers might be willing to run a bespoke portfolio for CUEF, this would likely increase fees and therefore cut into total

returns. There also remains considerable uncertainty regarding the future returns of a fossil-free portfolio. One short-run study in the current issue of this journal examines the impact of exclusions from a large-cap US equity index during 2004-2017 and suggests that in the recent past this impact has been minimal (Yooke and Hook, 2020).

There are also challenges associated with an engagement strategy for an investment office that pursues a delegated portfolio management model. Could CUEF persuade its fund managers, in accordance with the University's wishes, to engage with fossil fuel companies and get them to transition their businesses towards decarbonisation? Could CUEF at least insist on improved fund manager proxy voting standards such that the University could assure itself that its funds were being used to vote in favour of independent ESG shareholder resolutions and, when required, to vote against the re-election of intransigent directors? How might the University best make use of its involvement with international shareholder engagement coalitions such as Climate Action 100+, which represents investors with US$ 35 trillion AUM and targets the top listed carbon-emitting companies? What would engagement look like in CUEF's private equity holdings? And, equally importantly, how would the University and CUEF resource itself to take on such a programme of engagement?

Ms Franklin and Mr Odgers' thinking centred around the costs and benefits associated with divestment or engagement, and whether the two could be combined to good effect. Given CUEF's fund-of-funds model, their recommendation to University Council could have a significant effect on the composition and skill sets of the investment team, the fund managers CUEF would work with and how they would work together, whether the University itself would play a role in engaging directly with companies outside of CUEF, and the returns of the endowment and thus the performance of the University as a whole.

CONCLUSION

In his Old Schools office, Mr Odgers and Ms Franklin stood at the window of one of the oldest buildings in the University, the scene of academic discussion and contemplation since 1441. Mr Odgers's office itself, however, was a glassed-in modern addition perched above rows of wooden desks from bygone days. From this vantage point, they contemplated the particular challenge that they faced helping the University Council reach a decision. Should they advise the Council to divest CUEF's holdings in fossil fuel companies, to engage, or to do both? Whatever the recommended approach, there would need to be full cognisance of CUEF's fund-of-funds structure, as well as the fact that any further moves towards responsible investing may require more resources. Furthermore, consideration should be given to the broader role of the University, given its particular strengths and influence, in combatting the climate crisis.

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Exhibit 1: 'Cambridge investment chiefs quit university endowment fund', *Financial Times* 14.9.2018

Departures come after academics and students criticise fossil fuel holdings

Cambridge university's main endowment fund has suffered a blow after senior investment staff resigned from their jobs.

The departures from what is the UK's largest endowment fund in higher education come after growing pressure from the university's academic staff and students for it to dump its investments in fossil fuels.

Nick Cavalla, the fund's chief investment officer, will leave his role later this year, together with Bruce Lockwood, Conor Cassidy and Vincent Fruchard. The four are to join London-based Talisman Global Asset Management, the investment arm for the wealthy Pears family.

Mr Cavalla and his colleagues, who oversaw the university's main endowment fund with assets worth £3.3bn, had faced heavy criticism from students over holdings in oil and gas companies.

Cambridge's authorities have been reluctant for the fund to dispose of its fossil-fuel holdings, in part because of concerns about funding. The university has in the past received funding from oil companies including BP and Royal Dutch Shell.

Cambridge has carried out two reviews into the case for the university's endowment fund to sell its oil and gas holdings since 2016 and ruled out such a move in June.

Mr Cavalla, who joined the fund in 2007 from Man Group, the asset manager, said on Thursday that it "felt like the right time to take on a new challenge". He will become chief executive of Talisman.

Under Mr Cavalla's watch, Cambridge's endowment fund has performed strongly, with the main investment pot returning 18.8 per cent in the year to June 2017. Annualised returns of 13.8 per cent were recorded over a rolling five-year period to June 2017.

Cambridge confirmed in a statement that Mr Cavalla was leaving and a university spokesperson said his three colleagues were also departing.

Stephen Toope, vice-chancellor of Cambridge, said: "Nick has done an incredible job in his time with Cambridge university.

"He has transformed the performance of our investment fund, enabling us to diversify our income in a way that has allowed the university to undertake developments which have greatly benefited our academic mission and our students."

Two people familiar with Mr Cavalla's move said he had become increasingly frustrated about the debate around divestment of fossil fuels, believing it left staff unable to get on with their "jobs of trying to maximise the value of their endowment".

The fraught divestment campaign at Cambridge has included students taking over buildings and disrupting the boat race with Oxford university on the river Thames.

Cambridge Zero Carbon Society, a divestment group involving university students, has called for Mr Cavalla to resign on several occasions, accusing him of being a "driving force blocking the democratic will of the university".

Khem Rogaly, co-president of the group, said: "We urge the university to use this unique opportunity to build an accountable investment office and commit to full divestment from fossil fuels."

This article has been amended to clarify that Cambridge university's main endowment fund holds assets worth £3.3bn.

Source: Mooney, A. (2018).

Exhibit 2: Cambridge University Ethical Investment Working Group recommendations

Recommendation 1: Specific changes should be made to the SIR as set out in Appendix 3 of this report.

Informing

Recommendation 2: The University should take steps to ensure that the existing arrangements for enabling members of the University to express views on investment practices are more prominently publicised.

Recommendation 3: The University should continue actively to promote the sustainability and environmental initiatives that it carries out through its teaching, education and research. It is of course the case that such activity is financially supported by the endowment and the efforts of the Investment Office.

Recommendation 4: The Investment Office should consider ways in which existing academic expertise within the University could be used to support its management of the endowment and other investments with respect to investment responsibility.

Influencing

Recommendation 5: The University, working through the Investment Office, under the guidance of the Investment Board, should continue to develop its own model for engaging with fund managers and investee companies on ESG issues, and for monitoring and assessing the outcomes of these processes. The model should require managers to account for any holdings in companies which give rise to concern on ESG grounds.

Recommendation 6: The University should consider exercising its voting rights as a shareholder within its strategies of engagement on ESG matters, where feasible, and reporting appropriately.

Implementing

Recommendation 7: The University should report consistently and systematically on its ESG considerations in investments and practices when it reports on CUEF and other investments.

Recommendation 8: The University should publish an open letter jointly from the Vice-Chancellor and Chief Investment Officer to its external managers describing its values and expectations in relation to ESG considerations. A draft copy of such a letter is contained in Appendix 4 of this report.

Recommendation 9: Attention should be paid to investments across asset classes that focus on ESG considerations, when financially equivalent to current holdings.

Source: Cambridge University (2016a).

Exhibit 3: Cambridge University's Statement of Investment Responsibility

Background

1. The University's mission is 'to contribute to society through the pursuit of education, learning, and research at the highest international levels of excellence'. All the resources of the University are ultimately applied to this charitable purpose. Its core values include freedom of thought and expression and freedom from discrimination, as well as concern for sustainability and the relationship with the environment.

2. The University's investment assets are concentrated in the Cambridge University Endowment Fund (CUEF).

3. The Council has established an Investment Board and an Investment Office. The Investment Board advises the Council through the Finance Committee on matters relating to the University's investments, working closely with the University's Investment Office. The Board proposes and agrees with the Council investment objectives and an investment strategy appropriate to those objectives, recommends for agreement asset allocation limits, and advises on the appointment of managers for these funds who operate under instruction from the Chief Investment Officer.

4. CUEF, managed by the Investment Office, primarily makes indirect investments. The investment portfolio is allocated between various asset classes (for example publicly-traded equities, bonds, real assets, absolute return (hedge funds), private equity, and bonds). Investments will be made by fund managers specializing in each asset class appointed with a discretionary mandate to outperform within that asset class.

5. Therefore, typically, securities in trading companies will not be managed or held directly by the CUEF, but indirectly through investment in other funds (index funds, exchange traded funds, hedge funds, private equity funds, and partnerships and other vehicles). Of these indirect investments, a large proportion may not be readily marketable.

6. The University holds certain non-operational assets in addition to its investments in the CUEF, including properties not in operational use let for commercial returns and investments in University spin-out companies. The majority of these investments are not held on solely financial investment grounds.

Statement of Investment Responsibility

7. The primary fiduciary responsibility of the Council in investing and managing the University's endowment and other financial investment assets is to maximize the financial return on those resources, taking into account the amount of risk within the University's established investment policy. However, there are circumstances, described in Charity Commission guidance (see CC14 – *Charities and Investment Matters: A guide for trustees*) and founded in judicial decisions, when the University may balance against its primary responsibility considerations of the ethical nature of investments.

8. When investing and managing the non-operational estate, holdings in spin-out companies and similar investments, including in circumstances where the investment cannot be entirely justified on financial investment grounds alone, the Council is responsible for ensuring that the investment is in the best interests of the University and that it too reflects its underlying values.

9. The Investment Office will take due care to ensure that its management reflects the interests and values of the University. The Office's exercise of this duty will include actively engaging with fund managers and investee companies to ensure that these interests and values are reflected in how holdings are acquired, managed and traded, insofar as such considerations are consistent with a primary mandate to generate return.

Source: Cambridge University (2016b).

Exhibit 4: Open letter to the Cambridge University Council: Divest from Fossil Fuels

We, the undersigned, call on the University Council to commit to full divestment from fossil fuels.

In January 2017, Regent House passed a Grace without opposition calling the University to fully divest from fossil fuels. University Council, in an unprecedented move, approved the Grace but did not follow through with its mandate. Instead, Council decided to establish the divestment working group as a placatory gesture, and it now looks set to reject full divestment, simply reaffirming a two year old promise to divest from coal and tar sands. This is unacceptable and represents a subversion of democratic structures.

Divestment from fossil fuels, both direct and indirect, would bring investment policy in line with University values, research and mission statement which expresses a commitment to sustainability. As a world-leading institution, Cambridge is behind the times on divestment, with many leading UK universities such as Bristol, Durham and Edinburgh having already committed to full divestment.

This is also an issue of transparency and accountability. Precious few people seem to have any idea where the University's money is invested, with Vice-Chancellor Stephen Toope recently admitting in an open meeting that even he was in the dark. At the same time, the leak of the Paradise Papers last year revealed that Cambridge has invested tens of millions in offshore funds linked to oil exploration and off-shore drilling

We support divestment from fossil fuels because it has long been democratically supported by students and staff. Divestment is both necessary and urgent to stigmatise the fossil fuel industry who are most responsible for a warming climate. As detailed in the 2013 Oxford Smith School Report, divestment encourages companies to abandon environmentally abusive business models, and adds pressure to national government to bring about UK policy change. Divestment would be in line with the Paris Agreement, aiming to halt global warming of over 2℃. It is also financially prudent, as fossil fuels may soon become stranded assets, and corroborates with Cambridge's own research across departments warning of the dangers of fossil fuel dependency.

We call on University Council to take all necessary steps to ensure investment transparency with its beneficiaries, students and staff at the University. We also call on the University's Investment Office to immediately freeze any new investments in fossil fuel companies, and to divest from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds within five years. To state explicitly - we are calling for divestment both from direct and indirect funds. We ask the University to then consider how this money can be reinvested more ethically.

Divestment will bring Cambridge's finances back in line with its ethics and own research, and in doing so make a powerful contribution to the global fight for climate justice.

(Signed by 361 Cambridge faculty and researchers; see web page)

Source: Cambridge University Zero Carbon Society (2018).

Exhibit 5: Cambridge University Divestment Working Group recommendations

The University's Investments

1. Direct Equity Investment: The Investment Office should be mandated to invest in a manner consistent with a carbon neutral future in any directly held equities. This should include, but is not limited to, undertaking as a matter of policy not to invest in carbon intensive tar sands or thermal coal.

2. Indirect Investment: The University should expect that no investment in thermal coal or tar sands be made by any party with whom it invests.

3. Environmental, Social and Governance (ESG): There should be the allocation of a part of the University's indirectly held investment into dedicated environmental, social and governance (ESG) funds consistent with a carbon neutral future. We recommend that 10% of indirect investment should be placed with funds embracing ESG and rising through a determined and deliberate move towards a greater emphasis on assessable environmentally responsible funds in the relatively short term; the Investment Board to set out a timetable for this process to be reported to Council.

4. UN Principles of Responsible Investment: The University should commit to the UN Principles of Responsible Investment (UNPRI).

5. Reporting to Council: The Investment Office should, as recommended by ACBELA, regularly report to Council on how environmental and social concerns are incorporated and reflected in investment management practice and include how fund managers have executed the University's investment policies.

6. Transparency and public reporting: The transparency of the investment processes of the Investment Office should be increased e.g. by the introduction of an informative website. An annual report, including information on environmental and social concerns, and the manner in which ESG is accountably reflected in the portfolio should be reported to Council. An appropriate update should be published for the Regent House and provided on the University's website.

7. Behaviours: Council should consider, at least annually, the relative weight of ESG investments in investment returns and against performance benchmarks in accordance with their fiduciary responsibilities.

8. Resource Additional resource should be provided to the Investment Office to permit the employment of a person to provide engagement with fund managers and to engage with relevant researchers to provide coherent and authoritative positions on investment assets.

9. Investor engagement with industry: The University should join the Institutional Investors Group on Climate Change (IIGCC) or an alternative equivalent grouping, as soon as possible, to ensure it lends its voice and authority in engagement with industry, even where it holds funds indirectly.

Research and Policy

10. Leadership and Coordination: The University should establish a Centre for a carbon neutral future which will bring together the disparate areas of research on energy production and use, climate, sustainability (and other associated fields as appropriate) as well as policy. Additionally, the Centre should seek to collaborate with partners on appropriate campaigns to change climate policy.

11. Research and Policy Communication: A proactive communication strategy should be developed to support the promotion of research and policy work being done towards a carbon neutral future across the University and appropriate resourcing should be provided to enable maximisation of the impact of this work.

12. Dialogue and Advice: An integrated and high-level dialogue should be developed, directed at policy makers and industry leaders, and coordinated by the new Centre in collaboration with the Institute for Public Policy.

Source: Cambridge University (2018).

Exhibit 6: ‘Cambridge blacklists coal and tar sands companies’, *Financial Times* 17.6.2016

The University of Cambridge has blacklisted investments in coal and tar sands companies after facing pressure from students and academics to shun highly polluting fossil fuels.

The UK’s richest educational institution, which has an endowment of £5.9bn, is following the lead of rivals Oxford and Yale by shunning coal and tar sands investments.

“[We have] no expectation of having any such exposure [to coal and tar sands] in the future,” said a report from the university’s working group on investment responsibility. It was brought together last year to consider how Cambridge’s investment office should respond to issues such as climate change.

“Regulatory change and public policy significantly affect the expected economic returns from carbon-related industries,” it added.

The university, which currently has little exposure to the “most pollutive industries” of coal and tar sands, has faced repeated calls to divest from all fossil fuels, including oil and gas. This step has already been taken by Newcastle University and Queen Margaret University.

Angus Satow, campaigns officer at Cambridge Zero Carbon, a campaign group of staff and students, welcomed the university’s “rejection of coal and tar sands”, but said it had not gone far enough.

“We will continue to fight for full divestment,” he added.

Cambridge’s move comes just months after a landmark agreement on climate change in Paris, where governments around the world committed to tackling global warming.

The expectation is that efforts to reduce global temperatures will result in some fossil fuel companies becoming “stranded”, where large writedowns or devaluations make assets worthless.

Mark Carney, governor of the Bank of England, last year warned that investors faced “potentially huge” losses from stranded coal, oil and gas assets.

In light of these concerns, Cambridge also plans to pile pressure on fund managers to factor climate change into investment decisions.

Leszek Borysiewicz, Cambridge vice-chancellor, and Nick Cavalla, chief investment officer at the university, will write to fund managers used by the university telling them they are expected to “incorporate an assessment of climate change risks into their investment processes”.

“We are challenging all our fund managers to rethink carbon investments,” said Farhan Samanani, who sits on Cambridge’s working group on investment responsibility.

“Engagement with fund managers may include such considerations and involve strategies, where feasible, to divest progressively, consistent with the expected performance of the portfolio,” the report stated.

More than 2,100 Cambridge students and academics signed a petition calling for the university to divest from fossil fuels earlier this year, while a motion in favour of divestment was passed by 33 votes to one at the student union council.

In an open letter to the university, Cambridge Zero Carbon said divestment was “not only a moral imperative, it is also a financial one”.

They wrote: “Government action on climate change will therefore soon render a large proportion of fossil fuel assets worthless.

“If Cambridge sticks with fossil fuels, huge losses are on the horizon, which will disadvantage future students — divestment is the only sensible course of action.”

Mr Samanani said that rather than also blacklisting the oil and gas industries, the university is better placed using its influence to have a positive impact on carbon-intensive companies.

“There is real potential to have wide-ranging and smart impact,” he said.

“We can get a lot more traction by engaging with companies than by dumping the small number of fossil fuel stocks we own.”

Source: Mooney, A. (2016).