DIVESTMENTFACTS.co.uk

IPAA INTERNATIONAL COMMITTEE

Virtually every influential stakeholder in the UK, from universities to councils and religious institutions, have been **pressured** to consider their positions on whether to divest of fossil fuel-related investments. Proponents say that divestment can “stigmatise” the oil and gas industry in the global debate over climate change, all while costing institutions that adopt these policies almost nothing.

Following the release of the groundbreaking study by Prof Daniel Fischel of the University of Chicago in the US, economic consultancy Europe Economics has looked at how divestment strategies could affect UK investors. The resulting report found that **UK citizens and institutions alike could expect significantly lower returns through divestment** – affecting everything from pension funds to endowments.

HOW THEY GOT THERE

Numerous studies have been conducted to quantify potential losses resulting from the divestment of perceived “unethical” stocks -- including alcohol, gambling, tobacco, and arms – but **determined losses were broad**, falling anywhere **between 25-200 basis points.**

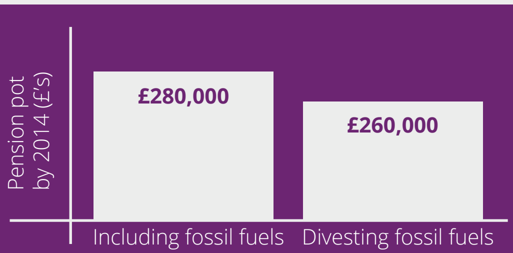
Despite various possible approaches, Europe Economics held to the orthodox theory, which teaches that **the ability to diversify risk is the most important element towards portfolio success.**

The report combined data from **Bloomberg** and **fossilfreeindexes.com** to form assets from the “services sector, the “ICT sector” and “fossil fuels” that attempt to replicate a divestment scenario.

The research found that investors following a fossil fuel divestment strategy, from 2002 to mid-2015, would have **sacrificed the equivalent of an annual return of 0.68 percentage points** (or 68 basis points), or if they did not want to accept lower returns, would have had to take **more than 20 per cent extra risk on their investments.**

The study explains what an investor risks by excluding certain stocks from a portfolio:

- Ending up with more risk, but no increase in returns
- Ending up with less return, but remaining at a high level of risk
- Ending up with more return, but acquiring more risk than necessary



To put the options for investors into perspective, if someone had £100,000 invested in a pension pot tracking the stock market from 2002 they would have had about £280,000 in 2014. If, instead, they had excluded fossil fuels in 2002 then by 2014 they would have had only £260,000 – **a loss of more than 7 per cent over the period.**

EXPERTS AGREE: DIVESTMENT IS NOT A SOLUTION

Activists claim that the divestment “movement” is a way to take a moral stand against fossil fuels in the broader fight to solve climate change. However, major academics, financial experts and respected leaders agree that divestment is **not an effective means to achieve such goals,** and not at the expense of alienating a sector that plays an important role in fuelling our way of life.

ASSET OWNERS DISCLOSURE PROJECT

“By simply divesting, you lessen and significantly diminish your influence, becoming an outsider looking in.**”**

JULIAN POULTER
CEO, Asset Owners Disclosure Project

BILL & MELINDA GATES *foundation*

“I don’t see a direct path between divesting and solving climate change. I think it’s wonderful that students care and now the Pope cares. But that energy of caring, I think you need to direct it towards something that solves the problem.**”**

BILL GATES
Co-chair,
Bill & Melinda Gates Foundation

UNIVERSITY OF OXFORD

“Since a divestment campaign has little hope of directly impacting the future cash flows of fossil fuel companies, neutral debt or equity investors have little cause to shun to fossil fuel companies. [...] Considerable communication with management of the target firm can be undertaken to influence behaviour before using up the trump card of divestment.**”**

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Smith School of Environment and Economics Report