

## Stanford Board of Trustees

### Decision on the Divestment Request of Fossil Free Stanford June 12, 2020

#### Executive Summary

Stanford considers climate change an urgent challenge and is committed to doing our part to achieve the goals of the 2015 Paris Agreement to keep the global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. Stanford has made major investments in research and education supporting decarbonization and clean-energy alternatives. Stanford has also worked aggressively to decarbonize its own operations, having already invested over \$1 billion in clean energy systems and transportation. These initiatives will result in an 80% reduction in campus emissions by 2021, over twenty years ahead of the goal set by California, and have an ultimate goal of full elimination of emissions.

The Stanford Management Company (SMC) incorporates proactive consideration of environmental issues, including the environmental and social impact of carbon, and of company behavior through its Ethical Investment Framework when assessing risk-adjusted returns of specific investments. SMC has reduced its active holdings in energy from 16% of the Merged Pool to less than 1.5% – a greater than 90% reduction – and the endowment funds managed by SMC do not include direct holdings in any of the 100 companies that are the subject of the petition by Fossil Free Stanford. At the same time, SMC has increased its sustainable investments to 4% of the Merged Pool.

Previously, the Board of Trustees decided to divest from thermal coal because it is among the most carbon-intensive of the fossil fuels, and less carbon-intensive fossil fuels are broadly available; it also previously took the same view with respect to tar sands. Based on the opinions of experts in the field, however, the Board has concluded that, in the absence of readily available alternatives at scale, the transition to clean energy will require the continued, time-limited use of less carbon-intensive fossil fuels, and that loss of these alternatives today is both unfeasible and would impose a particularly harsh cost on energy-impooverished communities. Consequently, the Board concluded that participation in today's energy systems – either as suppliers or consumers – does not in and of itself currently meet the standard required for blanket divestment under Stanford's Statement on Investment Responsibility. Individual companies may, however, meet this standard based on specific actions or inactions.

While the Board does not conclude that blanket divestment is currently warranted, the Board does find that the University's commitment to the goals of the Paris Agreement should be reflected in both the university's operations and its investments.

Therefore, the Board hereby:

- Supports SMC's investment approach, governed by the Ethical Investment Framework, which reflects and anticipates the need to transition to cleaner and more sustainable economic activity, and has led to a dramatic restructuring of the energy portfolio;
- Underscores that, under the Framework, SMC will not invest in energy firms that operate in a manner inconsistent with established climate science;

- In order to support SMC's effective application of the Framework, directs the chair of the Special Committee on Investment Responsibility to participate in SMC's annual portfolio review of all investments;
- Supports the continued vigorous exploration by SMC of promising opportunities in renewable energy and sustainable investments; and
- Commits to accelerating the university's transition, including its operations and endowment, to at least net-zero greenhouse gas emissions by 2050.

## Statement of the Board

The Board of Trustees this academic year (2019/20) reviewed a request from the student group Fossil Free Stanford (FFS) for the divestment of fossil fuel investments from the Stanford endowment. The Board strongly endorses the objective of decarbonizing the global economy and appreciates the efforts of FFS in advancing the discussion of this critical issue. In evaluating the FFS request, the Board's Special Committee on Investment Responsibility (SCIR) created a task force. The task force met throughout the academic year and held consultations with 45 faculty researchers, students, staff and experts, including all of the experts recommended by FFS, and students in a climate policy practicum taught by Professor Paul Brest. The Board is grateful to the members of our community who contributed the varied and important insights that have informed our review process. This statement provides the Board's findings and conclusions.

### *Findings on Stanford's commitment to the goals of the Paris Agreement*

Stanford is committed to the goals of the 2015 Paris Agreement to reduce the emission of greenhouse<sup>1</sup> gases that cause global warming. The Board and then-President Hennessy articulated Stanford's commitment to these efforts in a letter to the conveners of the Paris climate conference in 2015. Two years later, upon the announcement of the United States' withdrawal from that Agreement, President Marc Tessier-Lavigne reaffirmed the importance of these efforts and the University's resolve to make further progress. Leaders in government and industry around the world have committed to achieving net-zero greenhouse gas emissions by 2050 as a means of achieving the goals of the Paris Agreement.

Recognizing that addressing climate change requires the concerted efforts of governments, individuals and organizations, including universities, Stanford has pursued a comprehensive approach to reducing emissions and advancing the goal of carbon neutrality in both its campus operations and in its research and teaching. The university has significantly invested in clean energy on campus, achieving a 72% reduction in campus greenhouse emissions since 2000. The university has also invested over \$1 billion in clean energy systems and transportation initiatives that reduce emissions to levels that are well beyond what is required and continues to strive for further reductions. The university's comprehensive [Energy and Climate Action Plan](#) includes efficiency standards for buildings and, most significantly, development of the cutting-edge energy supply system, [Stanford Energy System Innovations \(SESI\)](#), which transformed the university energy supply from a 100% fossil-fuel-based combined heat and power plant to a more energy efficient system. This achievement reflects actual carbon reduction through operational and infrastructure investment, not through carbon offsets. Stanford has earned a platinum rating and continually earns commendations in the national university sustainability rating program, including ranking first for Doctoral/Research Institutions. Stanford's sustainability advances on campus, including green transportation, wastewater recovery and zero waste are summarized at <https://sustainable.stanford.edu/university-living-lab>.

### *Findings on management of the endowment*

The central purpose of the endowment is to provide financial support for current faculty and students and in perpetuity for the University's mission of education and research for the benefit of humanity. In exercising its fiduciary duty, the Board's oversight of the endowment is anchored in ethical considerations as reflected in the Board's Statement on Investment Responsibility

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<sup>1</sup> Goal of Paris Agreement is to limit warming to less than 2°C.

(SIR) and its approval of Stanford Management Company's (SMC) Ethical Investment Framework (Framework). The Chair of the Board of Trustees, President of the University and two trustees currently serve on the SMC board and ensure alignment with the University's values. Previously, the Board divested from thermal coal because it is among the most carbon-intensive of the fossil fuels and less carbon-intensive alternatives are broadly available.<sup>2</sup> The Board later determined that similar considerations apply to tar sands, although SMC did not have any such holdings.

SMC also actively incorporates ethical, environmental and social considerations in its investment decisions, as outlined in the Framework, as part of its goal of maximizing support for the University's mission. The Framework, in particular, recognizes the role of human activity in causing climate change and requires SMC to consider carbon-related damage to the environment, as well as assessing companies' concern for the "welfare of their stakeholders and the communities in which they operate."

SMC's proactive assessment of risk-adjusted returns in the context of the Framework has led to a dramatic reduction in investments in fossil fuels in recent years. SMC has reduced its active holdings in energy from 16% of the Merged Pool<sup>3</sup> to less than 1.5% – a greater than 90% reduction – and the endowment funds managed by SMC do not include direct holdings in any of the 100 companies that are the subject of the petition by Fossil Free Stanford. At the same time, SMC has increased its sustainable investments to 4% of the Merged Pool.

#### *Assessment of the request for divestment*

FFS asks that the Board adopt an absolute view that any and all oil and gas producers, by virtue of their role in producing fossil fuels, are engaged in "abhorrent and ethically unjustifiable" conduct under the University's standard for divestment. After extensive consideration, the Board found that it is unable to conclude that Stanford's remaining indirect investments in oil and gas companies meet the standard required for total divestment under the SIR at this time. Faculty researchers with expertise in decarbonization have advised that the transition of the global economy to carbon neutrality requires shifting to cleaner fossil fuel sources while also preserving and increasing access to energy for all people, including those in developing economies and energy-impooverished communities who rely significantly on oil and gas for their daily livelihoods because of the current absence of alternatives available to them. These experts also agree that there is no near-term practical replacement for oil and gas at sufficient scale, and that natural gas in particular will be critical to the energy transition. Certain essential functions, such as air transportation, cannot currently operate on solar, wind or other renewable energy sources alone. Under these circumstances, while the Board strongly endorses the continued shift to cleaner energy sources, the Board cannot agree that simply participating in today's energy systems, either as suppliers or consumers, in and of itself meets the high bar of "abhorrent and ethically unjustifiable."

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<sup>2</sup> This decision was made in 2014, before the Board's adoption of a new standard in the 2018 Statement on Investment Responsibility recognizing "that very rare occasions may arise when companies' actions or inactions are so abhorrent and ethically unjustifiable as to warrant the University's dissociation from those investments. Such activities include apartheid, genocide, human trafficking, slavery, and violations of child labor laws. These instances may be reviewed on a case-by-case basis and must meet the very high bar articulated above." It should be noted that application of the SIR standard is not intended to extend to index funds or funds managed by generalist external partners that invest broadly across financial securities and markets. As one among many indirect investors in these situations, SMC is ordinarily not in a position to dictate the composition of these portfolios.

<sup>3</sup> SMC is the fiduciary for the Merged Pool, which comprises the substantial majority of Stanford's investable assets. Endowment funds constitute three-quarters of the Merged Pool. Other investment assets include non-endowment gifts, other reserves, and funds relating to the Stanford Hospital and the Lucile Packard Children's Hospital.

The Board also considered the FFS assertion that, apart from mining and selling carbon, many individual oil and gas companies have engaged in specific human rights violations, and that participation by many of these companies in industry associations and other lobbying efforts justifies holding all members of the industry – whether or not they engage in such behavior – accountable for across the board divestment. The Board views generalized claims of this nature insufficient to support a determination of blanket industry-wide culpability. The Board does agree with FFS that at any given time a particular company may be engaged in unacceptable behavior, and SMC should rigorously assess the propriety of investing in such a company. Individual companies alleged to be engaging in conduct that is abhorrent and ethically unjustified are subject to evaluation on a case-by-case basis under the SIR.

Prompted by its evaluation of the issues raised by FFS, the Board also considered whether and how the University's commitment to the goals of the Paris Agreement should affect its investments. The Board supports the continued investment on campus in decarbonizing the university's operations, and in research and education that support the development of clean energy systems and the transition to a carbon-neutral economy. The Board also concludes that the University's commitment to the Paris Agreement should be reflected not just in the its operations and academic programs, but also in its investments as set forth in the attached resolution. The Board wishes to acknowledge that SMC has openly engaged in this review process, which has been constructive in providing more insight into SMC's investment approach, the portfolio and SMC's adherence to the Framework. To further enhance the Board's engagement, the Board determined that the chair of SCIR will join other trustees in SMC's annual portfolio review of all investments, which includes evaluation of the application of the Framework.

During the course of the Board's review of its divestment petition, FFS raised questions about whether considerations related to funding from companies for research supporting the transition to clean energy or for student support at the University would affect the Board's evaluation. The Board wishes to be clear that the divestment standard requires that ethical considerations be paramount, and that the financial concerns cited by FFS did not play any role in the Board's decisions.

The Board values continued engagement with students and the broader Stanford community to further our proactive approaches to ethical investing and advancing the goals of the Paris Agreement. The Board endorses the University's interdisciplinary academic programs being developed under an initiative focused on responsible, sustainable and impact investing and governance, which will include research and education exploring ESG factors and development of methods to achieve net-zero greenhouse gas emissions.

## Resolution of the Board

Stanford considers climate change an urgent challenge and is committed to the goals of the 2015 Paris Agreement. Stanford has made and continues to make significant investments on campus to transition an entire community to clean energy and to advance research and education to further the global transition to clean energy. As well, SMC, applying economic assessment in the context of its Ethical Investment Framework, has restructured its energy portfolio in recent years. These are tangible and effective measures that fully support the objectives of the Paris Agreement.

The Board endorses those efforts and hereby:

- Supports SMC's investment approach, governed by the Ethical Investment Framework, which reflects and anticipates the need to transition to cleaner and more sustainable economic activity, and has led to a dramatic restructuring of the energy portfolio;
- Underscores that, under the Framework, SMC will not invest in energy firms that operate in a manner inconsistent with established climate science;
- In order to support SMC's effective application of the Framework, directs the chair of the Special Committee on Investment Responsibility to participate in SMC's annual portfolio review of all investments;
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