Cornell University
Office of University Investments

Discussion regarding Divestment from Fossil Fuels

University Assembly Meeting

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The Case for Divestment

As Outlined by the University Assembly

- Fossil fuel use is disrupting the Earth's climate
- Cornell committed to carbon neutrality by 2035
- Energy company reserves not entirely burnable
  - Reduces value of companies
- As a research institution, Cornell should focus on renewables/alternative energy sources
- No negative impact from divesting

The Role of Energy in the LTI

- Energy represents approximately 7% of the LTI
  - 1/4 in public stocks and 3/4 in private investments
- Public energy stock outperformance added ~$100 million to the LTI over last 10 years
  - Based on re-creation of Cornell's portfolio
  - Counter to study by Aperio Group which claims no impact from divesting
    - Cornell Professor Jarrow review: *"flawed from a theoretical and empirical perspective"*

Practicality of Divesting

- We invest in managers across all asset classes
  - No direct security ownership
- 55% of the LTI is illiquid
  - Liquid investments through separate accounts and commingled funds
- Restrictions on managers would eliminate commingled funds and limit investment with the best managers

Manager Selection in the LTI

- Start with the asset allocation - Investment Committee
- The Investment Office competes to hire the best managers across all asset classes
  - Over the last 10 years, Cornell's managers have exceeded median managers and indexes
    - ~$165 million in added value over median managers
      - 7% of $2.3 billion 10 yr payout
    - ~$260 million in added value over indexes
      - 11% of payout

Impact on Energy Industry from Divesting

- The 200 companies referred to in the Senate resolution have a combined market value of $4.3 trillion
- The Ivy league has combined assets of ~$100 billion
  - Assuming the same 1.75% exposure to public energy stocks equates to $1.75 billion, or 0.0004% of the value of the companies in question
  - Cornell is 0.00003%
- Divestment would be symbolic

State of the Renewable Energy Sector

- Investment returns/risk inadequate
- Public Pensions reducing exposure
- Government investments experiencing losses
- Governments moving to voluntary support
- Corporates provide bulk of investment

Independence of the LTI

- Operate independent of political or special interest projects
- Outside of the Sudan, have not used divestment
- Did not fully divest from South Africa
  - Adopted the Sullivan Principles – remained invested
- Have not funded projects that fall short of return/risk parameters
  - Student housing
  - Collegetown
  - Facility at JFK
- Precedent?
  - Russia, food processing, alcohol, defense, Middle East

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What Peers are Doing…

- Publicly announced No's
  - Cornell and five others
    - $56 billion in assets
  - CalPERS - $300 billion; no to divest
  - CalSTERS - $190 billion; studying divestment but CIO on the record as against
- Private No's
  - 19 other institutions totaling $100 billion in assets
- Publicly announced Yes's
  - 7 schools with a total of $150 million in endowment assets
    - Small environmentally focused curriculums
  - 19 foundations with a total of $2.6 billion in assets
    - Mission driven philanthropy impacting investment decisions
  - Symbolic statements related to direct investments
- World Bank President called for divestment but no action in portfolio (2014)

Summary

- Respect concerns on global carbon footprint
- Real potential cost to divestment
- Largely symbolic
- Alternative actions by Cornell
  - Target carbon neutrality (2035)
  - Support sustainability initiatives (Atkinson Center)
  - Foster research into renewables
  - Support activities around teaching and researching the geopolitical dynamics
  - Continue to seek viable investments