# Fossil Fuel Divestment: The Financial Case

# Katelyn M. Kriesel

Financial Advisor, Hansen's Advisory Services
President, The Sustainable Economies Alliance

DIVEST NEW YORK

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Why divest from fossil fuel companies?

**The moral argument.**

# Why divest from fossil fuel companies?

## **The financial argument.**

# How are fossil fuel companies performing?

XOM 79.50
^GSPC 2760.17
200.00%
190.18%
175.00%
150.00%
125.00%
100.00%
75.00%
50.00%
25.00%
0.92%
-25.00%
140.02M
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019


BP 36.46
^GSPC 1310.33
Open 59.30
High 62.38
Low 55.87
Close 56.12
Volume 102.68M
200.00%
190.17%
150.00%
100.00%
50.00%
-0.88%
-34.74%
-50.00%
171.34M
1/2010
2011
2012
2013
2014
2015
2016
2017
2018
2019

CVX 89.96
^GSPC 2043.94
200.00%
190.17%
175.00%
150.00%
125.00%
100.00%
75.00%
53.80%
25.00%
0.00%
131.78M
-25.00%
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019

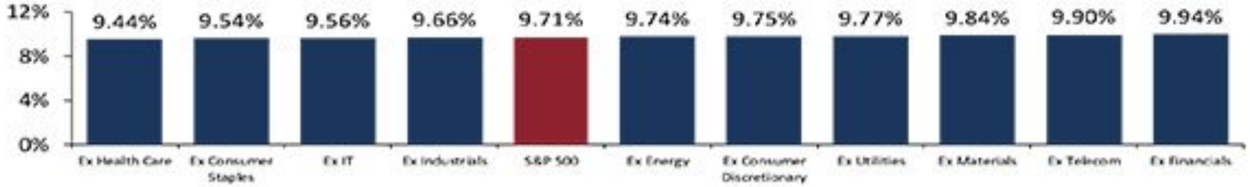
*“We compare financial performance of investment portfolios with and without fossil fuel company stocks over the period 1927–2016. Contrary to theoretical expectations, we find that fossil fuel divestment does not seem to impair portfolio performance.* ***These findings can be explained by the fact that, so far, fossil fuel company stocks do not outperform other stocks on a risk-adjusted basis and provide relatively limited diversification benefits.*** *”*

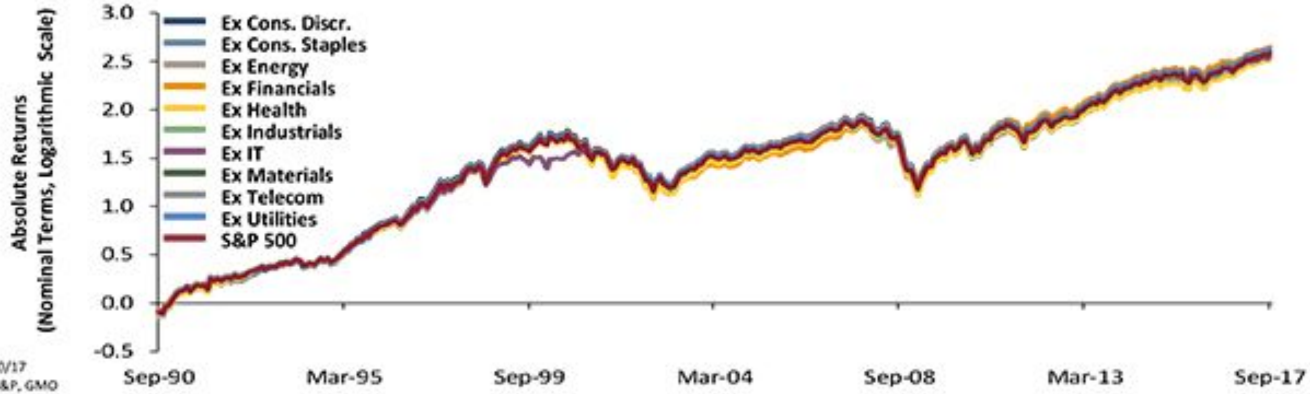
Fossil Fuel Divestment and Portfolio Performance

GMO

# Yes, You Can Divest From Oil – or Anything Else – Without Much Consequence

## Annualized Absolute Returns (Nominal Terms): 1989-2017 – Range: 50 bps




As of 9/30/17
Source: S&P, GMO

Why do we need to make the financial case?

Fiduciary duty.

# FIDUCI -WHAT?

# Fiduciary Duty

CENTER for INTERNATIONAL ENVIRONMENTAL LAW

Pension fund fiduciaries are required to safeguard the value of their funds, and **climate change poses a direct challenge to that objective**. As such, climate change and climate-related risks trigger fiduciaries' duties:

to inquire, requiring fiduciaries to consider the prudence of their investment decisions;

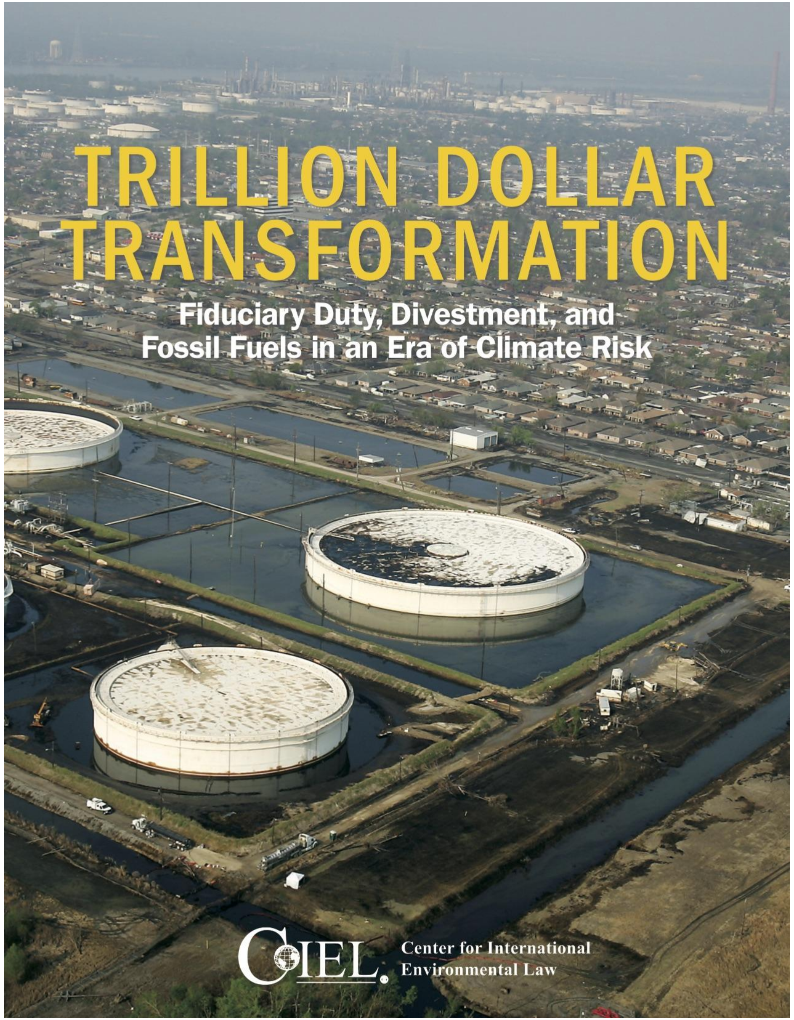
to monitor, requiring revaluation of investments already held in the context of new changes in regulations, international mitigation efforts, and market trends;

to diversify, ensuring that a given portfolio is amply protected against the known idiosyncratic risks inherent in certain investment types, including investments in fossil fuel assets;

to act impartially with respect to all beneficiaries, protecting fund principal over the long-term and prioritizing preservation of trust capital alongside maximizing fund growth;

of loyalty, requiring the trustees to act solely in the interests of their funds' beneficiaries, without acting to further personal or ideological interests; and

to act in accordance with plan documents.




"The cleanest and simplest way to avoid climate vulnerability in a portfolio **is to divest** or, at a minimum, dramatically reduce exposure to fossil fuel and other highly climate-vulnerable holdings. There is no legal obstacle to risk-based negative screening - or selling or avoiding high-risk investments generally - as long as the rest of the portfolio is performing adequately."

What do NYC, London, Ireland, Norway, Syracuse University and hundreds of other institutions all have in common?

# The Impact of Fossil Fuel Divestment

1. Cripple fossil fuel companies
    a. Stock Price
    b. PR
2. Reduce risk/ improve returns
3. Align investments with environmental sustainability and social justice principles

# Once I've divested, where can I reinvest?


Environmental
Social
Governance

Morgan Stanley
Institute for Sustainable Investing



# Sustainable Reality:

## Understanding the Performance of Sustainable Investment Strategies

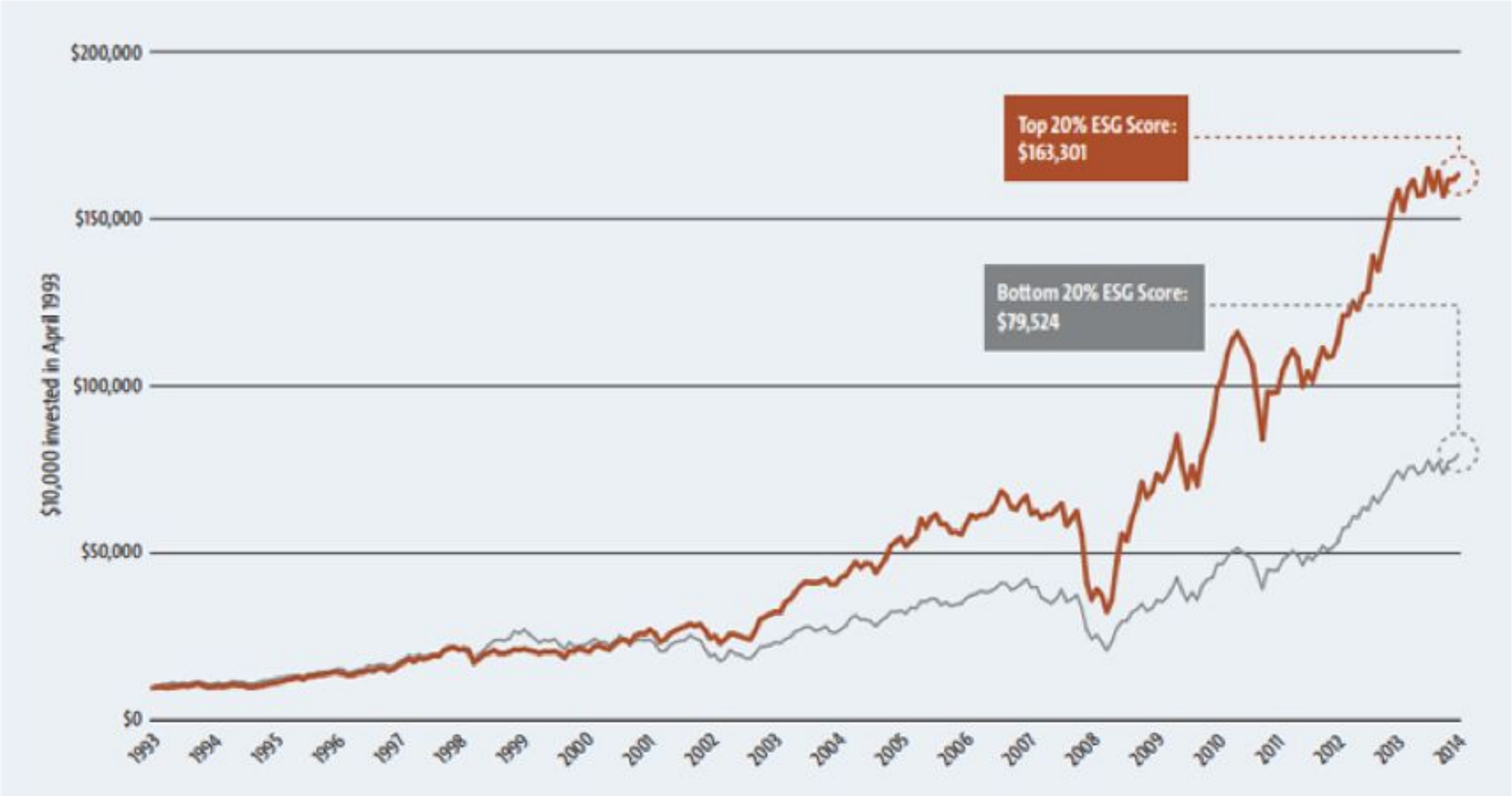
A growing number of investors are exploring sustainable investing. In 2012, $1 out of every $9 of US assets under professional management was invested in some form of sustainable investment, primarily in public equities. In 2014 that number increased to $1 out of every $6 – to a total of $6.57 trillion now invested sustainably.[1]

With this growth, investors increasingly ask what tradeoffs, if any, there are to sustainable investing. Some investors believe sustainable investments underperform, or have higher risk than their traditional counterparts.

We set out to explore whether this view is accurate.

### Key Findings

- Investing in sustainability has usually met, and often exceeded, the performance of comparable traditional investments. This is on both an absolute and a risk-adjusted basis, across asset classes and over time, based on our review of US-based Mutual Funds and Separately Managed Accounts (SMAs).
- Sustainable equity Mutual Funds had equal or higher median returns and equal or lower volatility than traditional funds for 64% of the periods examined.
- There is a positive relationship between corporate investment in sustainability and stock price and operational performance, based on a review of existing studies.
- Long-term annual returns of one index comprising firms scoring highly on environmental, social and governance criteria exceeded the S&P 500 by 45 basis points since its inception in 1990.[2]
- Manager selection is crucial for sustainable and traditional investments alike.




The chart above illustrates the author's analysis of a large number of U.S. stocks from 1993 to 2014, ranked on the strength of their ESG commitments. The stocks were grouped into the top 20% of the universe (top ESG score) versus the bottom 20% (bottom ESG score).

# What next?

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