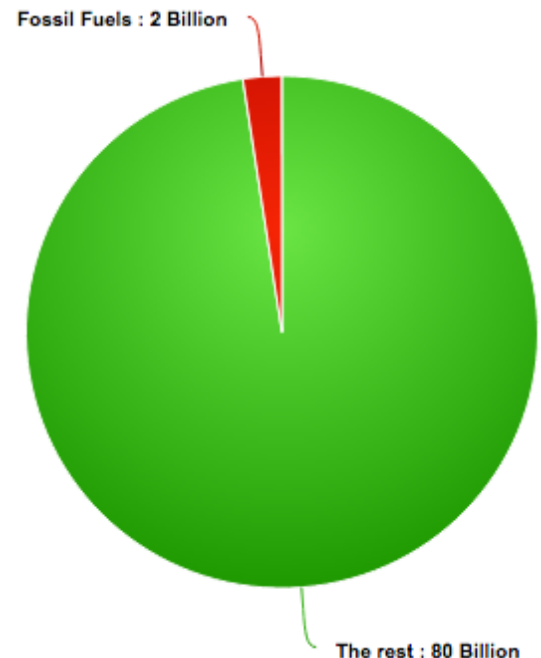


# THE FINANCIAL CASE FOR FOSSIL FUEL DIVESTMENT

This document aims to communicate why investing in fossil fuels is not a smart long-term fiduciary strategy and why it's a threat to Minnesota public employees and taxpayers. We're not trying to present skewed information, but rather articulate the ample current and future risk of staying invested in fossil fuel companies.

## WE INVEST MONEY IN COMPANIES DRIVING CLIMATE CHANGE

- The MN SBI invests \$2 Billion in the Top 200 fossil fuel companies that have the most carbon reserves worldwide, the total fund is worth \$82 billion<sup>1</sup>
- If present trends continue, these investments could put public employee pensions at risk because of many factors, including:
  - Declining profitability of fossil fuels
  - Cost-competitiveness of renewables
  - Regulations being put on carbon



## FOSSIL FUEL STOCK PRICES ARE DECLINING

- Thanks to crumbling demand and weak prices, coal stocks (KOL), have declined by 85% over the past five years.
- Due to the drop in oil prices, shares in broad oil/gas industry (FENY) have declined by 29% over the last five years.
- Not a single large oil extraction project in the last 3 years has come on stream with a break-even cost below \$80 a barrel.<sup>2</sup>
- In February 2016, financial consulting firm Deloitte asserted that 35% of independent oil and gas companies are at “high risk” of bankruptcy in 2016.<sup>3</sup>

<sup>1</sup> <http://mn.gov/sbi/publications/detailedassetreportjune2015.pdf>

<sup>2</sup> <http://www.oil-price.net/>

<sup>3</sup> <https://www2.deloitte.com/us/en/pages/energy-and-resources/articles/the-crude-downturn-for-exploration-and-production-companies.html>

## **PENSIONS ACROSS THE WORLD ARE DIVESTING**

- The two largest pension funds in the world, the California Public Employees Retirement System (CALPERS) and the California State Teachers Retirement Association (CALSTERS) are divesting from coal<sup>4</sup>
- Vermont's Governor, Peter Shumlin has called on the state to divest from coal and Exxon Mobil.<sup>5</sup>
- 65 other pension funds, in the US and around the world, have divested from coal or the Top 200 fossil fuel companies<sup>6</sup>
- Pension fund divestment has been or is currently being considered in Massachusetts, Vermont, New York, Nevada, Connecticut, and Hawaii.
- New York's pension fund could have saved \$5.3bn if it had divested from fossil fuels 3 years ago, according to a new report. That's \$4,500 extra that could have gone to each public employee.<sup>7</sup>

## **SOME STATEMENTS ABOUT WHY PENSION FUNDS HAVE DIVESTED**

*"Coal is losing value quickly and investing in coal is a losing proposition for our retirees; it's a nuisance to public health; and it's inconsistent with our values as a state on the forefront of efforts to address global climate change. California's utilities are phasing out coal, and it's time our pension funds did the same." - CA Senate President, Kevin de León*

*The decision to divest was "safeguarding and building financial wealth for future generations in Norway." Its reasons for divesting include "long-established climate-change risk-management expectations." - Marthe Skaar, Norges Bank Investment Management - manager of Norway's pension fund*

## **THE FOSSIL FUEL INDUSTRY OWNS MORE CARBON THAN WE CAN SAFELY BURN - AND THEY'RE LOOKING FOR MORE**

The world's biggest fossil fuel companies have 5 times more carbon than we can burn in order to maintain a livable climate.<sup>8</sup>

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<sup>4</sup><http://www.pionline.com/article/20151008/ONLINE/151009858/california-governor-signs-bill-requiring-cal-pers-calstrs-to-divest-coal>

<sup>5</sup><http://insideclimatenews.org/news/07012016/vermont-governor-urges-state-divestment-coal-exxon-mobil-climate-change>

<sup>6</sup> <http://gofossilfree.org/commitments>

<sup>7</sup><http://www.theguardian.com/sustainable-business/2016/mar/04/fossil-fuel-divestment-new-york-state-pension-fund-hurricane-sandy-ftse>

<sup>8</sup> <http://www.carbontracker.org/wp-content/uploads/2014/09/Unburnable-Carbon-Full-rev2-1.pdf>

They are planning to burn through all that carbon, because their share price depends on it.

If you thought these numbers would incentivise fossil fuel companies to stop emitting carbon you'd be wrong. According to Bloomberg Business, over \$241 billion is spent *each day* looking for new fossil fuel reserves.<sup>9</sup>

### **FOSSIL FUELS ARE BECOMING STRANDED ASSETS**

of carbon reserves must stay in the ground in order to maintain a safe planet. John Fullerton, former Managing Director at JP Morgan and now Director of the Capital Group, calculated that the value of the 80% of carbon is worth close to \$27 trillion.<sup>10</sup> That's \$27 trillion the fossil fuel industry has factored into their share price.

If the industry cannot reap \$27 trillion of their profits fossil fuel companies will become grossly overvalued - and investors and public employees will be feeling the losses. Knowing this, our pension managers have a *fiduciary responsibility* to protect our pensions from these future risks.

### **DIVESTMENT DOESN'T MEAN LOWER RETURNS**

- A study by the Aperio Group found that divestment posed a 0.0101% risk for portfolios. That level of risk is deemed negligible, or non material.<sup>11</sup>
- MSCI, the industry's gauge of global stock activity, conducted a study on divestment and found that Fossil Free portfolios actually outperform unscreened portfolios.<sup>12</sup>
- Impax Asset Management studied 4 strategies with varying aggressiveness in screening for carbon. All 4 portfolios that were screened for carbon did the same or better than unscreened portfolios<sup>13</sup>

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<sup>9</sup><http://www.bloomberg.com/news/articles/2014-11-11/g20-spends-88-billion-a-year-on-fossil-fuel-exploration>

<sup>10</sup> <http://capitalinstitute.org/wp-content/uploads/2014/09/FINANCIAL-OVERSHOOTread.pdf>

<sup>11</sup> <https://www.aperiogroup.com/resource/138/node/download>

<sup>12</sup>[https://www.msci.com/resources/factsheets/MSCI\\_ESG\\_Research\\_FAQ\\_on\\_Fossil-Free\\_Investing.pdf](https://www.msci.com/resources/factsheets/MSCI_ESG_Research_FAQ_on_Fossil-Free_Investing.pdf)

<sup>13</sup><http://www.impaxam.com/sites/default/files/20130704%20Impax%20White%20Paper%20fossil%20fuel%20divestment%20FINAL.pdf>