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DIVESTMENT IN CALIFORNIA: WHAT YOU NEED TO KNOW

As divestment activists turn their attention to California, here's a quick look back at what has – and more importantly hasn't – occurred in the state over the past year.

2014

May 2014: University of California, Los Angeles (UCLA) professor Ivo Welch speaks out on the costs of divestment in the ***New York Times***.

Prof. Welch, a professor of finance and economics at the Anderson Graduate School of Management, states that, "individual divestments, either as economic or symbolic pressure, have never succeeded in getting companies or countries to change." Commenting on Stanford's decision to divest from coal stocks, he noted that "Stanford's endowment represents only about five-hundredths of 1 percent of the world's capitalization. Even if Stanford divested itself fully of all its stocks, both fossil and nonfossil, it would probably take the market less than an hour to absorb the shares."

2015

March 2015: California Public Employees' Retirement System (CalPERS) Chief Executive Officer Anne Stausboll states that CalPERS opposes divestment.

According to Stausboll, "if investors sell, we will simply pass the buck to those who buy. A more constructive and proven approach is for us to engage with the companies we own…Calpers' view is that the path to change lies in engaging energy companies, instead of divesting them. If we sell our shares then we lose our ability as shareowners to influence companies to act responsibly."

Frank Wolak, director of the Program on Energy and Sustainable Development at Stanford, echoed the point in a statement to the ***New York Times***, noting that "divestment comes at the expense of meaningful action. It will do nothing to reduce global greenhouse emissions. It will not prevent these companies from raising capital."

August 2015: Prof. Cornell of Caltech releases ***a report***, finding divestment could cost the nation's leading universities millions, while having no tangible impact on targeted companies or carbon reductions.

Prof. Cornell, a visiting professor of Financial Economics at Caltech, examined the possible impact of divestment at Harvard, Yale, Columbia, NYU, and MIT in a new study. According to his findings the universities would see an average annual shortfall of 0.23 percent (risk adjusted), losing an average of 12.07 percent over a 50-year timeframe. When combined that would mean the five schools would experience an annual loss of $195 million. ***As Prof. Cornell concluded***, "a reduction in endowment fund returns as a consequence of divestment would have material impacts on an endowment's ability to fund a university's key institutional goal."

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>
> Jagdeep Baccher
> *UC Board of Regents CIO*

September 2015: The University of California system announced its decision to sell about $200 million in investments tied to coal mining and oil sands development for financial, not political, reasons.

Although divestment activists declared a "***huge win***" for their campaign, UC Board of Regents Chief Investment Officer ***Jagdeep Baccher*** came out against divestment, saying it was merely an investment decision and that "climate policy needs to be more complex than a divestment-or-nothing reflex. Blanket divestment from fossil fuels grabs headlines but doesn't actively address climate change." Baccher also highlighted the UC's limited holdings in coal and

2015

oil sands, stating "it's important to note that to begin with we had less than a couple hundred million dollars of these direct holdings so it wasn't really a debate for us in terms of selling these investments and we came to this conclusion on the basis of economics."

October 2015: Governor Jerry Brown signed SB 185, forcing the state's two major pension and retirement funds to partially divest from coal-producing companies.

Gov. Brown's signing of SB 185 into law, forced CalPERS and the California State Teachers' Retirement System (CalSTRS) to divest from coal stocks, but was met with resistance across the state. ***Chris Ailman***, CalSTRS Chief Investment Officer, stated "I've been involved in five divestments for our fund. All five of them we've lost money, and all five of them have not brought about social change." UC Regent ***Bonnie Reiss*** reiterated the point stating it "is just symbolism without real impact and maybe gets a quick headline like we saw with Stanford."

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The actual legislation text also contains many loopholes allowing funds to step away from divesting. As the ***Sacramento Business Journal*** states, "if divesting from coal appeared a risky move leading to losses for the public employee retirement accounts, their respective boards would not have to divest." The bill also only targets 'thermal' coal companies generating over 50 percent of their revenue from mining coal. According to the ***Sacramento Business Journal***, "for CalPERS, the law targets 27 companies that provide the pension fund with a portfolio value of $57 million – a drop in the bucket for a pension fund worth $293 billion. The California State Teachers Retirement System, which has $184 billion in assets, said its current investment in thermal coal holdings is valued at $6.7 million."

November 2015: Stanford students in favor of full divestment protested in front of the school's administrative building for nearly a week, ending after a meeting with University President Hennessy.

President Hennessy maintained that even after Stanford divested from coal companies in May 2014 – an action seen by many as an empty gesture given the University's limited coal holdings – full fossil fuel divestment "has no chance of passing" because it "has no background research." As a student for the ***Stanford Review*** puts it, "at best, Fossil Free Stanford is leading an economically unfruitful and politically marginal campaign. At worst, they are diverting attention, resources, and human capital away from more valuable endeavors."

2016

January 2016: California's insurance commissioner Dave Jones asked all active insurance companies to divest from coal companies.

Robert Hartwig, President of the Insurance Information Institute, called Jones' sudden move towards divestment "***a slippery slope***" from an economic point of view, stating "there is no end to the different sectors of the economy that you could single out…Each and every insurer makes its own investment decisions, but all of them have portfolios that are extremely well diversified and, generally speaking, there is going to be an energy component in the portfolio of virtually every insurer."

According to the ***think tank R Street Institute***, Jones' announcement also ignores the fact that the value of capital investments made by the fossil fuel industry are broadly known and thus already priced into the equity valuations of coal, oil and gas company stocks and that escalating regulatory pressure on fossil fuel companies does not necessarily entail a commensurate increase in risk in the short term.