

**SUMMARY AND FREQUENTLY ASKED QUESTIONS**  
**BUSINESS RESOLUTION: FOSSIL FUEL DIVESTMENT**  
**GENERAL ASSEMBLY 2014**  
**UNITARIAN UNIVERSALIST ASSOCIATION (UUA)**

**APRIL 24, 2014**

**SUMMARY**

The goal of the [proposed divestment resolution](#) is to respond to the rapidly escalating climate crisis. The criteria used in creating the resolution were that it be responsive to the crisis, achievable through a sensible process, respectful of the shareholder advocacy position, and mindful of fiduciary responsibility. Provisions are as follows:

- A freeze on investment purchases by the UUA's Common Endowment Fund (UUCEF) of securities of the 200 companies identified by the Carbon Tracker Initiative as controlling the largest shares of fossil fuel reserves among publicly traded companies (the CT200).
- Divestment of the UUCEF's direct holdings of CT200 securities within five years.
- Negotiation with institutional investment providers to create more fossil fuel-free investment options, with the ultimate objective of divestment of the UUCEF's indirect CT200 holdings within five years.
- Reinvestment in securities that will support the transition to a clean energy economy, such as in renewable energy and energy efficiency.
- Continued shareholder activism with targeted fossil fuel companies on climate-related issues.
- Continued exercise of UUA's fiduciary responsibility in management of the UUCEF.
- Annual reports at General Assembly by the UUA President and Treasurer on the progress of the resolution.
- A recommendation to UU congregations and individual members to consider fossil fuel divestment.

The resolution qualified for the General Assembly 2014 agenda on the strength of petition support from [100 UU congregations](#) representing 30 states and the District of Columbia. Delegates will debate and vote on the 'Fossil Fuel Divestment' Business Resolution at GA 2014.

**In summary, [here are five reasons](#) to divest fossil fuel securities:**

1. Get our investments in line with our values.
2. Reduce corporate influence on energy policy.
3. Strengthen the climate movement.
4. Reduce investment exposure to potentially overvalued fossil fuel securities.
5. Reinvest in the solutions.

**Here are brief responses to the four most common questions about fossil fuel divestment:**

1. What is the UUA's (denomination-wide) position on the divestment resolution?

*The UUA Board of Trustees voted on April 13, 2014 to endorse the resolution. See FAQ 12, pp. 6-7.*

2. How will divestment affect shareholder action to change corporate policies?

*Shareholder action will continue as it exists today. See FAQ 9, pp.5-6.*

3. Will fiduciary responsibility be affected?

*The UUA Treasurer and investment committees have agreed that the resolution as negotiated does not impinge on their fiduciary duties. See FAQs 11, p. 6, and 12, pp. 6-7.*

4. Will fossil fuel divestment affect investment returns?

*Short-term market price changes are unpredictable, but studies have shown that fossil fuel divestment will likely not affect longer-term returns, either positively or negatively, and that there is investment risk associated with fossil fuel securities due to the "carbon bubble." See FAQ 13, pp. 7-8.*

5. Isn't addressing climate change a job for government?

*Yes, but government is failing, and protecting the climate is also a job for the private sector and for every citizen. The goal of divestment, combined with other strategies, is to convince the public at large and government and private decision-makers that this is a very real planetary emergency, and that we must act now. See FAQ 3 and 4, p. 3.*

## **FREQUENTLY ASKED QUESTIONS**

### **1. What is divestment?**

Investment is buying stocks, bonds, or other securities that generate income and gains through price appreciation. Churches, universities, and retirement funds in the private and public sectors invest billions of dollars to fund their work and to pay salary and benefits for their employees.

The UUA has a [Common Endowment Fund](#) (UUCEF), in which the UUA itself is invested, and in which individual congregations can invest their own funds. Some congregations use the UUCEF for this purpose; others invest on their own or through other advisors, and still other, smaller congregations have no investments at all other than cash reserves.

[Divestment](#) is simply the opposite of investment; it means selling assets, whether for social, environmental, or financial reasons. Currently the UUCEF invests in securities of fossil fuel companies, and this resolution would have the committee that manages the fund freeze purchasing and divest holdings of 200 major corporations in that sector.

We are asking for divestment because the business model of these companies represents a major risk to the climate and life as we know them.

## **2. What is a Business Resolution?**

A [Business Resolution](#) is a formal expression of the will of a General Assembly (GA) that directly affects the administration or structure of the UUA. A Business Resolution may be proposed by districts or congregations or by petition of individual UUs. If the proposal meets the required level of support, it will appear on the GA agenda to be debated and decided by a vote of the delegates.

## **3. Why is divestment necessary?**

We are at [a critical point](#) in the global response to climate change. [Little has been accomplished](#) in the two decades since the creation of the [United Nations Framework Convention on Climate Change](#), the international framework for addressing climate change. [Carbon dioxide continues to accumulate](#) in the atmosphere, and [scientists project off-the-charts warming](#) of the planet in coming decades.

Climate change is real, it is happening now, and real people are being harmed, now, in places such as [South Asia](#), [Pacific islands](#), the [Alaska coast](#), and [northern Canada](#), while [ice in polar regions melts](#) and “[megadrought](#)” and wildfires plague areas such as the American Southwest.

We must do everything possible as soon as possible to slow climate change: divestment of interests in dirty energy, working within corporations to reduce demand for fossil fuels, investment in clean technologies, lobbying for strong public policy, opposing individual fossil fuel projects, reducing energy use in our congregational life, and transitioning our own lives to a low-carbon future. Strong action on all fronts is needed now; there is no time left to waste.

## **4. Isn't addressing climate change a job for government?**

Yes, but government is failing, and protecting the climate is also a job for the private sector and for every citizen. The major problem with the global response to climate change is that the world's governments have done very little of consequence in the two decades since initiating a U.N. process to address the crisis (see FAQ 3, above). We as citizens must press government, and private interests as well, to take action now.

The goal of divestment, combined with other strategies, is to convince the public at large and government and private decision-makers that this is a very real emergency that cannot be ignored any longer. One of the unique contributions of the divestment movement may be to speed up the recognition of the clear mathematics of greenhouse gas concentrations (FAQ 5, below) and the “carbon bubble” (FAQ 13, “Value,” pp. 7-8), which together are a very stark and striking demonstration of the planetary emergency humanity faces.

## **5. What fossil fuel investments are targeted, and why?**

The [Carbon Tracker Initiative](#), in cooperation with the [Grantham Research Institute](#) of the London School of Economics and Political Science, does detailed calculations of fossil fuel reserves and emissions to estimate climate and investment risk. Carbon Tracker has identified

[the top 200 publicly traded fossil fuel corporations](#) as measured by the size of the coal, oil, and natural gas reserves they control. These companies (the CT200) are the targets of the divestment campaign.

The core business of the CT200 companies and their state-owned equivalents, such as the national oil companies of Venezuela, Mexico, and Saudi Arabia, is extracting and selling the reserves they control for burning. However, if all known reserves are burned, the result will be climate catastrophe; this business model is a clear and present danger to humanity and Earth as we know it. The numbers are unambiguous:

- **2 degrees C.** (3.6° F.): the United States and 166 other nations have agreed that we must limit the global temperature increase to [no more than 2° C. over pre-industrial levels](#) to avoid major climate disruption. [We have warmed 0.8° C.](#) (1.5° F.) so far, and this level of warming has already resulted in harmful impacts around the world. Further, we are committed to [additional warming](#) from greenhouse gases previously emitted due to the slow release of added heat from the oceans.
- **80%:** [the approximate percentage of known fossil fuel reserves](#) that must remain in the ground, unburned, if we are to keep global warming below the 2° C. threshold.
- **15 years:** the Intergovernmental Panel on Climate Change concluded in a 2014 report that only an intensive push to cut greenhouse gas emissions [over the next 15 years](#) can keep the global temperature rise below the 2° C. threshold. Simply put, we have to act now to avoid dangerous warming.

To become part of the solution instead of the problem, fossil fuel companies would have to pledge to leave 80% of their reserves in the ground and stop exploring for more, as well as stop lobbying to weaken public policy on climate and stop funding dishonest climate change-denial campaigns.

## **6. What are the goals of the campaign as they relate to the fossil fuel industry?**

The immediate goal of [the growing divestment campaign](#), as expressed by [Rev. Dr. Jim Antal](#) of the United Church of Christ, is to “revoke the social license” of fossil fuel companies. As the [350.org campaign](#) puts it –

... we need to loosen the grip that coal, oil and gas companies have on our government and financial markets, so that we have a chance of living on a planet that looks something like the one we live on now. It’s time to go right at the root of the problem—the fossil fuel companies themselves ....

The broad goals are to expose the dangers of continued extraction and burning of fossil fuels, help lead citizens, governments, and markets to reject business as usual, and help give humanity a chance of moving to an energy economy that does not threaten life as we know it.

## **7. What is the broader context of the divestment resolution?**

This UUA resolution is part of a larger campaign, begun by [the non-profit group 350.org](#), and involving churches, universities, and public and private retirement funds. Though the UUA is a small part of this campaign, it is crucial to involve as many of the “roots” as possible in a grassroots campaign like this if it is to achieve critical mass and succeed.

As of April 2014, 90 institutions -- eleven colleges and universities, 24 cities and counties, 30 religious institutions, and 25 foundations and other institutions -- [had made commitments](#) to divest from fossil fuels. Among the religious institutions are one denomination (the United Church of Christ), twelve regional associations of churches, and [ten UU congregations](#). More than 500 other institutions are engaged in divestment campaigns.

Of several divestment campaigns in recent history, the one that had the greatest impact was the 1980s movement against apartheid in South Africa. About 300 public and private entities divested securities of multinational companies that did business in the country; this action brought focus on the regime and kick-started a broad campaign that eventually [brought down the Apartheid government](#).

Archbishop Desmond Tutu, a leader of the anti-apartheid movement in South Africa, has [expressed solidarity](#) with today's fossil fuel divestment movement:

The divestment movement played a key role in helping liberate South Africa. The corporations understood the logic of money even when they weren't swayed by the dictates of morality. Climate change is a deeply moral issue too, of course.... Once again, we can join together as a world and put pressure where it counts.

## **8. What is reinvestment?**

Reinvestment simply means using the proceeds from the sale of an asset to pay for a new investment. In the context of the divestment campaign, it means using an appropriate share of the funds realized from selling carbon-intensive energy holdings to invest in a sustainable energy future, in sectors such as clean energy, clean water and air, efficiency, transportation, energy storage, agriculture, and cleaner industry in general.

“[Divestment and reinvestment](#)” is a powerful call to action [to reduce greenhouse gas emissions and contribute positively](#) to a climate-friendly energy economy.

## **9. Can shareholders pressure fossil-fuel companies without divesting?**

A shareholder may file a resolution to reform company policy, and voting by shares then takes place on the resolution at the corporation's annual meeting. While it is rare to get a majority vote on a shareholder resolution, significant minority support or even the threat of a vote alone on a resolution may sway a corporation [to agree to reforms](#).

[The UUA engages in shareholder action](#) with corporations of all kinds, including fossil fuel companies, largely by working within umbrella groups. By policy, the UUCEF may hold [a maximum of 0.25%](#) (one-fourth of one percent) of the value of the endowment in shares held for shareholder action. (Shareholders need own only [\\$2,000 in company stock](#) for a minimum of one year to qualify to file a resolution.) Therefore, the value of shares required for shareholder action is insignificant in the context of the endowment as a whole.

The UUA has been a leader among religious institutions in shareholder action, and this action will continue under the resolution. It is not an either-or proposition; shareholder activism and divestment are a strong combination of strategies, one (shareholder action) working within

corporations, and one (divestment) working outside the corporate structure to help change public opinion, the financial industry, and public policy.

Under the resolution, the UUA will focus its shareholder advocacy within fossil fuel companies to speed up the transition to clean energy. To be optimally effective, this activism will need to be well planned, strong, and rapidly escalating. In addition, we urge UUA to focus shareholder action on companies on the demand side of the equation, such as utilities and automakers, on the banks that finance fossil fuel operations, and on investment firms, to convince them to provide fossil fuel-free investment options.

### **10. What is the difference between direct and indirect investments?**

The [UUCEF holds securities](#), such as shares of common stock, in a number of corporations. These are called *direct* investments, because the fund actually owns the securities. Other assets are held in mutual funds and other pooled-asset financial products, in which the investment manager, not the UUCEF, owns the securities. These are *indirect* investments; the UUCEF's investment committee has no direct ownership of or control over the securities that make up these investments.

We recognize that there are few pooled investments available that specifically exclude fossil fuels, primarily because investment managers do not perceive adequate demand for them. The resolution provides that the UUA will work with investment managers to create more such choices; we envision the UUA's joining forces with other divesting institutions to make the demand for fossil fuel-free options visible and explicit.

The resolution creates a five-year window for divestment of holdings of CT200 securities, allowing time for consultation, negotiation, and due diligence on fossil fuel-free pooled investments.

### **11. What is fiduciary responsibility?**

[An investment fiduciary](#) is someone who has a legal responsibility for managing money for other people. Boards of directors, investment committees, and certified financial planners are among those who are charged with this duty. The basic responsibilities as usually defined are [to put the client's interest first](#) and to manage a prudent investment process.

The [Responsible Endowments Coalition](#) and other organizations stress that fiduciary responsibility does not rule out sustainable and responsible investing. In this view, factoring in the investor's values and [a long-term view of the sustainability](#) of the investment is compatible with a fiduciary's duties.

### **12. What is the position of the UUA Board of Trustees on fossil fuel divestment?**

The UUA Board of Trustees (the denomination-wide governing body) voted on April 13, 2014 to endorse the resolution. In part, the board motion reads as follows:

Recognizing the growing threat of climate change to the earth and to current and future generations, the Board of Trustees believes we must redouble our efforts to press for action to address the crisis through our invested assets. We should use all of the tools

available to us, including shareholder advocacy and divestment of shares in companies doing the greatest harm. Therefore we support the passage of the Business Resolution calling for divestment of fossil fuel company stocks and engagement with the companies whose shares we hold.

Prior to the board vote, over two months' time in late 2013, UU Divest discussed and negotiated the language of the resolution with the UUA's legal counsel, Treasurer, Investment Committee (IC), and Committee on Socially Responsible Investing (CSRI). The resolution as negotiated allows the IC broad latitude in implementing fossil fuel divestment and establishes an annual reporting process to keep the membership informed and involved.

As a result of the negotiation, the committees agreed that the resolution does not create legal issues nor impinge on fiduciary responsibilities. The resolution also allows continued shareholder advocacy, a main concern of the CSRI.

### **13. Will avoiding the top 200 fossil fuel companies affect investment returns?**

The investment case for holding securities of fossil fuel companies generally involves these ideas: (1) excluding them reduces the diversification and therefore safety of an investment portfolio; and (2) they offer investment value. In our opinion, neither of these arguments is compelling, and the need to help change our energy future through divestment outweighs any arguable, short-term benefit of holding these securities.

***Diversification.*** The assumed size of the forgone opportunity and avoided risk from divesting portfolios of the targeted companies depends on the data picked for comparison. According to the [Carbon Tracker Initiative](#), the 2013 market value of these 200 global companies is about \$4 trillion; the value of the stocks traded on the world's largest exchanges in 2013 was [more than \\$60 trillion](#), so the CT200 represents roughly 7% of global equity market capitalization. As an alternative data point, the 200 companies make up less than 3% of the individual constituents of a [common index of world stocks](#).

There are investments that can provide exposure similar to that of reserve-controlling fossil fuel companies as appropriate. Fossil fuel service companies and equipment suppliers that do not control reserves are open to investment under the resolution. "Alternative" investments that include energy commodities and materials stocks, which behave similarly to fossil fuel stocks [across the business cycle](#), are other options.

***Value.*** There is evidence that fossil fuel reserve-related securities are not critical to an investment portfolio. Although short-term market movements are unpredictable, [a 2013 study](#) by the Aperio Group has shown that excluding the most carbon-intensive investments likely neither adds to nor subtracts from portfolio value. [A 2014 update](#) of the study found that substituting a mix of utilities and materials for fossil fuel stocks results in a portfolio with a return : risk profile essentially identical to an index-like portfolio with fossil fuel stocks.

There is also an emerging view in finance that the securities of fossil fuel companies with substantial reserves are [riskier investments](#) than usually acknowledged. The prices of these securities are largely based on presumed future profits from selling the fossil fuel reserves the companies control. Current prices assume that humanity will do nothing to slow climate change for many years, beyond the point of catastrophe. [Investors are waking up](#) to the fact that this is

not a reasonable assumption, and that therefore the stocks of companies with substantial reserves are very likely to be significantly overvalued.

As governments begin to act to slow climate change, they will be forced to tax or otherwise regulate emissions from burning fossil fuels. The reserves will become less valuable, and the related securities will fall in value. There is risk in holding fossil fuel stocks *now*, not just in the long term; for example, [the stock prices of major coal corporations plunged](#) in reaction to President Obama's June 25, 2013 announcement of a relatively modest plan to cut carbon pollution.

The overvaluation of fossil fuel stocks is referred to in financial circles as the "[carbon bubble](#)," and is being compared to the mispricing of exotic mortgages prior to the 2008 financial crisis. The implication is that losses in these stocks due to revaluation of reserves could trigger "[massive financial fall-out](#)."

#### **14. How can UU congregations and individual UUs eliminate fossil fuels from their investments and reinvest in a clean energy economy?**

For congregations, if this resolution passes, the funds held in the UUCEF will be divested within five years, the targeted time period of the broader divestment campaign. For funds invested elsewhere, it will depend on how your congregation handles its assets; consult your investment committee.

For individuals who invest in a diversified portfolio of mutual funds, it is possible now to reduce fossil fuel exposure well below that of the market-capitalization indexes many investors regard as benchmarks, and to begin to invest in the transition to a clean energy economy. A good starting point is the paper "[Extracting Fossil Fuels from Your Portfolio: A Guide to Personal Divestment and Reinvestment](#)." There are only a few mutual funds available now that specifically exclude fossil fuels, but the financial industry is likely to provide more options as demand for cleaner investments increases. We can speed this process up by asking our investment managers to provide these options!

#### **15. What about the moral and ethical dimension?**

Respect and caring for the interdependent web of all existence is at the heart of our Seventh Principle. It is simply wrong to attempt to profit from activity that will create climate chaos, cause immense human suffering, and alter life as we know it. Social justice, the heart of our Second Principle, also calls us to action; the brunt of the burden of climate change will fall on the poorest people in the world and on future generations -- those who are least responsible for the crisis.

Sincerely,

UUs for Fossil Fuel Divestment and Sustainable Reinvestment (UU Divest)

*\*\* If you are reading this document on paper, the underlined words in the text are links to online references available through the web version of the document found here:*

[divestfossilfuels.wordpress.com/information](http://divestfossilfuels.wordpress.com/information)