

March 30, 2018

Dear President Rosenberg,

The Social Responsibility Committee (SRC) has considered the proposal from Fossil Free Mac (FFM) and has reached a consensus to support the primary ask of the proposal, namely a moratorium on future private partnerships in oil and gas investments. We will first outline the process that was adopted in reaching this decision, followed by our rationale for the decision, and conclude with additional issues that are connected with the implementation of the proposal.

I. Process

The SRC consists of 5 voting members and 3 ex-officio members. The voting members are James Doyle (faculty and chair), Molly Flerlage (student), Suzanne Savanick Hansen (staff), Roopali Phadke (faculty), and Shelby Witherby (student). A second staff member, Tim Whittle, was originally part of the committee but resigned from the committee upon his resignation from the College. Since by this time our deliberations were very far along, it was decided not to replace him with another staff representative. The 3 ex-officio members are Donna Lee (Vice President for Student Affairs), Gary Martin (Chief Investment Officer) and David Wheaton (Vice President of Administration and Finance). The SRC has met four times starting in December 2017. Our first meeting focused on understanding the context and history of fossil fuel divestment efforts at Macalester, with input from Donna Lee, Gary Martin, and David Wheaton, as well as establishing our own decision-making framework. At the second meeting, representatives from FFM gave a presentation, immediately followed by a discussion between FFM and the SRC. The SRC met for a short time immediately after the presentation to discuss our initial impressions and questions. The SRC continued to discuss the proposal during the third meeting, and at the end of that meeting it was decided that the voting members of the SRC would individually submit their recommendations to the SRC chair, who would compile the recommendations and bring them to the fourth and final meeting. At the fourth meeting the recommendations were reviewed and discussed. It was clear that a unanimous consensus had been reached among the voting members of the committee.

II. The Consensus

The FFM proposal's main request is that Macalester College impose a moratorium on future private partnerships in oil and gas. Thus, when the existing partnerships expire, no new funds would be invested in oil and gas partnerships. Instead, funds that would have been invested in such partnerships could be moved into other private partnerships, such as timber or agriculture, or other modes of investing the endowment that would be determined by the Macalester Investment Office.

All of the voting SRC committee members agreed with FFM that direct investments in oil and gas are contrary to Macalester's publicly stated positions on the environment and climate change, including adoption of American College and University Presidents's Climate Commitment (with the goal of carbon neutrality by 2025) and the 2017 signing of the "We Are Still In" pledge by President Rosenberg. In addition, the SRC agreed with FFM that unlike a complete divestment throughout the entire endowment, a moratorium on new investments in oil and gas partnerships can be immediately implemented with no other major structural changes to the investment portfolio. Both Gary Martin and David Wheaton concurred that the proposal is feasible to implement and represents a much more focused ask than the previous and rejected FFM submission, which had proposed complete fossil fuel divestment from the endowment. Based on these considerations the voting members of the SRC unanimously support the primary ask of the FFM proposal.

The SRC agrees with FFM that by itself, the proposed moratorium will not impose significant economic pressure on fossil fuel companies; others will assuredly fill the investment gap we create. Nonetheless, as the impacts of climate change become more tangible and visible there is increasing urgency to act against climate change in whatever ways possible. Consistent with its public positions on environmental issues and other commitments to sustainability, Macalester should be a visible leader in these efforts.

Several other reasons were individually expressed by members of the SRC committee in support of the FFM proposal. There was concern about the possibility of stranded assets as the world continues to move away from a reliance on fossil fuels. Concern was also expressed about the secretive nature of these partnerships, which may result in funding of pipelines contested by Native Americans on religious and cultural grounds. Both of these points were discussed in the FFM proposal. In addition, it was suggested that alumni and prospective students might appreciate the fact that Macalester is on the forefront of taking concrete action on climate change. Finally, it is important to recognize the thorough effort by FFM students in crafting a revised proposal, based on feedback from the administration, that is at once practical *and* consistent with Macalester's values. The proposal was also formally supported by MCSG in 2017 through the unanimously passed "Resolution 001: Moratorium on Private Oil and Gas

Partnerships”. By adopting the FFM proposal, we recognize the value of conscientious student efforts to help shape the College’s social agenda.

III. Additional Issues

The major concern of the SRC, also discussed in the FFM proposal, was the potential loss of income to the College with the proposed moratorium. All investment decisions entail a certain amount of risk, and the behavior of any investment depends on unknowable future market performance. The best one could do would be to look at previous market behavior and construct “what if” scenarios. One estimate by the Macalester Investment Office found that if we had not made the oil and gas investments over the past 23 years, and instead invested the funds pro rata in the rest of the endowment portfolio, the endowment would be approximately \$40 million less than the current balance. Assuming the usual 5% draw, this would have resulted in \$2 million less in current annual income for the College.

We believe that this calculation exaggerates the financial impact of the moratorium. Private partnerships are used to help provide a balanced portfolio in terms of yield and risk. According to Gary Martin, the role of private energy partnerships in our endowment include enhanced investment returns, risk reduction through increased portfolio diversification, and tendencies to perform well, relative to other investments, in inflationary economic environments. Thus, the more relevant calculation in our opinion would be to replace the oil and gas investments with alternative private partnerships having similar yield and risk. It seems likely that in this scenario the overall negative financial impact would be considerably less than the pro rata scenario mentioned above. The SRC also considered the feasibility of revisiting the proposed moratorium after it has been implemented, either on a yearly basis, or perhaps after a fixed number of years, with the experience of the post-moratorium endowment performance. We discussed whether the moratorium could be lifted if it was determined that the endowment suffered significantly as a result of this decision. It was concluded that it would be very difficult to quantify the impact of the moratorium with any meaningful accuracy. We note however that a very recent study¹ found that in general, investment portfolios having fossil fuel investments do not perform significantly different than portfolios lacking such investments, at least over the long term. Thus, in our opinion, the available evidence does not support the assertion that the moratorium would result in a significant decrease in the performance of the endowment.

We should also acknowledge that this proposal is asking for a restriction on investment options that might contradict the best judgement of the investment professionals at the College whose job it is to maximize the return on the endowment. An important question is then to what extent our investment professionals should have such restrictions. This concern must be weighed against the ethical implications of direct and

deliberate investment in an industry whose goals and historical behavior are in direct contradiction to Macalester values. In addition, there are undoubtedly such de facto restrictions in place already. For example, it seems unlikely that Macalester would choose to deliberately invest in tobacco or gambling interests even if such investments could return a high yield. According to Gary Martin, the Investment Staff and Committee are mindful of, and periodically discuss, how potential investment may reflect on Macalester College. However, the SRC and FFM would like to see the College develop a set of statements or guidelines that explicitly define a socially responsible investment policy that spells out how our investment decisions can be consistent with the values of the College, similar to what Hampshire College² and Middlebury College³ have done. The Intentional Endowments Network⁴ also has resources to assist schools looking to develop endowments that support institutional values and financial goals. It is our understanding that such discussions are already underway within the College administration. However, we feel that adoption of the FFM proposal should not wait until the conclusion of those efforts, but rather it is our hope that the adoption of the FFM proposal will further facilitate those discussions.

¹ A. Trinks, B. Scholtens M. Mulder, and L. Dam, *Fossil Fuel Divestment and Portfolio Performance*, *Ecological Economics* 146 (2018) 740–748.

²<https://www.hampshire.edu/offices/hampshire-college-investment-policy>

³<http://www.middlebury.edu/offices/administration/vpfin/endowment/sustainable-investing>

⁴<http://www.intentionalendowments.org>

Respectfully,

The Social Responsibility Committee

James Doyle (faculty and chair)

Molly Flerlage (student)

Suzanne Savanick Hansen (staff)

Roopali Phadke (faculty),

Shelby Witherby (student)