

Our Road to Divestment

How the Union of Concerned Scientists Overcame the Divestment Challenge

HIGHLIGHTS

In late 2013, the Union of Concerned Scientists board of directors examined the organization's investment portfolio and found our "sustainability funds" did not completely screen out fossil fuel companies. Over the next 18 months the board Investment Committee worked with our investment advisors to divest our portfolio from fossil fuels while continuing to use low-cost index funds, and maintain diversification to manage risk.

As a result of this effort, we have been able to essentially divest from fossil fuels. Our experience demonstrates that midsize organizations with a conservative investment strategy can divest with no material change in risk or return objectives.

The Union of Concerned Scientists (UCS) is essentially divested from fossil fuels. We achieved this goal without changing our investment strategy, and upheld our financial responsibility to our donors.

Background

Prior to divestment, UCS did not hold any direct investments in fossil fuel companies. Like many Americans, we invested in large, passively managed index funds to reduce our investment management fees. In addition, the Investment Committee of the UCS board of directors had moved money into "sustainability funds" to ensure our financial strategy aligned with our mission to build a healthier planet and safer world.

The Road to Divestment

In late 2013, UCS reviewed our approximately \$32 million portfolio and found that even the sustainability funds did not completely screen out fossil fuel companies. Using the Fossil Free Indexes LLC list of the top 200 investable companies—a list that calculates carbon emissions based on reported reserves—our advisors determined that a small percentage of our portfolio was invested in fossil fuel producers. These stocks were embedded within our index funds. While this



By divesting from fossil fuels, UCS ensured that our financial strategy aligned with our mission to build a healthier planet and safer world.



As our experience has shown, midsize organizations with a conservative investment strategy can divest from fossil fuel companies without jeopardizing risk or return objectives.

percentage was lower than many organizations with similar portfolios, the board of directors asked the Investment Committee to explore whether deeper divestment could be achieved.

The Investment Committee, working with our investment advisors, investigated options appropriate for the size of our portfolio and allowed us to continue using low-cost index funds while maintaining prudent diversification to manage risk.

We found that a large financial services company, Blackrock, was launching a fossil-free fund that met our investment criteria. This fund is based on a set of benchmark indices that excludes companies directly engaged in extracting carbon reserves. The global benchmark includes more than 2,000 securities across 25 countries. After a number of discussions with Blackrock, we moved to invest a portion of our equities in its

passively managed product. In order to maintain diversification in our portfolio and minimize investment manager risk, our advisors researched additional investment management companies willing to work with the concept of fossil fuel divestment. After interviewing several investment managers, we chose to work with Calvert Investments, which custom-designed a low-cost product to meet our needs.

With the Calvert investment complete, UCS is almost entirely divested from fossil fuel holdings. Our remaining exposure (less than 2 percent as identified by companies on the Carbon Underground 200) is within investments in emerging markets. Fossil fuel divestment from emerging market companies is difficult, though we are committed to continue exploring options in this area.

A Conservative Investment Strategy Is Not a Barrier to Divestment

Our experience clearly demonstrates that midsize organizations with a conservative investment strategy can divest from fossil fuel companies with no material change in risk or return objectives. While it took some determination, research, and expert assistance, UCS was able to accomplish this in less than 18 months. Our hope is that sharing our experience will help other organizations step up to the challenge of divesting from fossil fuels.

Midsize organizations with a conservative investment strategy can divest from fossil fuel companies without jeopardizing risk or return objectives.

Union of Concerned Scientists

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NATIONAL HEADQUARTERS
Two Brattle Square
Cambridge, MA 02138-3780
Phone: (617) 547-5552
Fax: (617) 864-9405

WASHINGTON, DC, OFFICE
1825 K St. NW, Suite 800
Washington, DC 20006-1232
Phone: (202) 223-6133
Fax: (202) 223-6162

WEST COAST OFFICE
500 12th St., Suite 340
Oakland, CA 94607-4087
Phone: (510) 843-1872
Fax: (510) 843-3785

MIDWEST OFFICE
One N. LaSalle St., Suite 1904
Chicago, IL 60602-4064
Phone: (312) 578-1750
Fax: (312) 578-1751