1. What is PIC?

Positive Investment Cambridge is a broad-based coalition of students, academics, and staff. PIC works to ensure that Cambridge University and its colleges engage in socially and environmentally responsible investment practices. We directly engage with the University administration, University pension funds, and college bursars to promote positive investment strategies. PIC also runs events and training sessions to promote the discussion of investment issues among students and the local community.

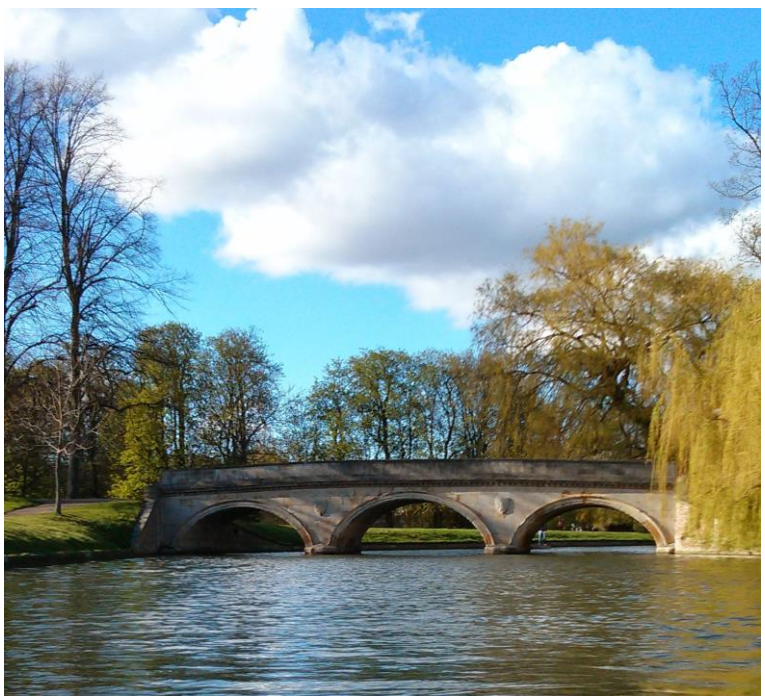
Although primarily driven by the urgent need for a response to the threat of climate change, PIC is also concerned with other issues such as the impact of indiscriminate weapons and unsafe or exploitative labour standards.

2. Why do we need the campaign?

The University's stated mission is "**to contribute to society** through the pursuit of education, learning, and research at the highest international levels of excellence", and its core values include "concern for **sustainability** and the relationship with the **environment**".

The University of Cambridge and its colleges have a total endowment of around £5bn, the largest university endowment in Europe.

As an institutional investor with a long-term investment horizon, the University has a great opportunity – and a strong incentive – to influence companies' long-term performance and to invest in key infrastructure projects, energy efficiency retrofits, and renewable technologies that benefit society and produce good returns over the coming years and even decades. Alarmingly, there are currently no mechanisms in place to align the University's mission and values with its investment policies and practices.



3. What should Cambridge do?

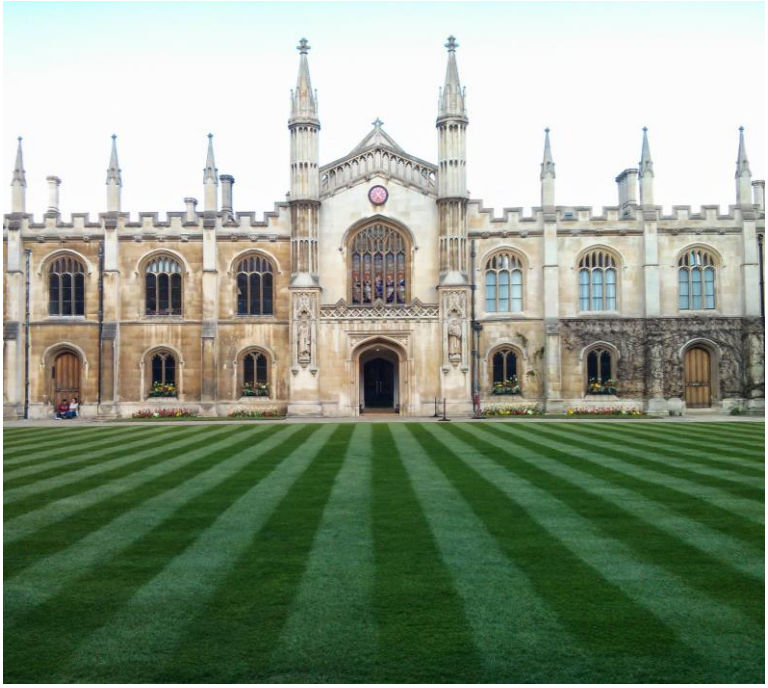
We want the University to align its investment practices and policies with its own stated values. The first step towards doing this – to investigate all positive investment options well-suited to the specific characteristics of the University and its endowment – was taken on 18 May, 2015, when the University agreed to form a Working Group with this mandate.

The Working Group's investigation should result in robust recommendations for the positive investment of the university endowment fund, a major win for positive investment.

4. What is positive investment?

Positive investment is any investment strategy that contributes to the wellbeing of people and the environment. Positive investment can be achieved in a variety of ways, including through the issuance of green bonds and/or the establishment of Green Revolving Funds (energy efficiency financing), collaborative shareholder engagement, divestment from certain industries and/or (re)-investment into renewable energy, and even the creation of ethical pooled funds and venture capital that would appeal to other large institutional investors.

For more information check out our 1-page summaries of each of these options!



5. What about colleges?

All Cambridge colleges taken together invest an estimated £2.6bn. Part of this is invested in the main University fund, but most colleges also manage their own investments.

PIC coordinates several college campaigns and has begun to organise information sessions with experts in various positive investment strategies for college bursars who want to find out more.

6. And pensions?

PIC is currently working with one out of four Cambridge-affiliated pension funds to explore positive investment strategies for their portfolio and we are hoping to engage in work with a second fund soon.

7. How can I help?

To find out more about our work

Drop us a line at
positiveinvestmentcam@gmail.com

Visit us at
positiveinvestment.wordpress.com

Follow us on Facebook
facebook.com/PositiveInvestmentCam/

And join our committee meetings!

Energy Efficiency Financing

What is energy efficiency financing?

Buildings can be retrofitted to use less energy and save money for the owners. Green bonds or a Green Revolving Fund (GRF) are two ways of paying for building insulation, replacing boilers and windows, etc.

Could Cambridge issue its own green bonds?

Because bonds (see page 6 for an explanation) are safe assets, in the wake of the financial crisis institutions with excellent credit ratings, like Cambridge, are able to borrow very cheaply. Cambridge has already issued bonds for other projects. The university could issue tens or hundreds of millions of pounds in green bonds, which would represent one of the largest green bond issuances in the history of the UK and would measurably increase the supply of green bonds in the country (green bonds are currently oversubscribed many times over). The resulting energy savings would make such an endeavour extremely lucrative, yet low-risk. It would also create a model for other universities with older building stock. Cambridge is near the bottom of the UK league tables in terms of emissions, so this would vault it up the list very quickly. The timing is good, as Cambridge Retrofit has done a great deal of work on university buildings.

Are GRFs a good investment?

Yes. The savings from GRFs become profit that can then be re-invested in further building projects. Energy efficiency produces, by far, the best return on investment of any energy source, conventional or renewable.[1] GRFs at Harvard, Stanford, and elsewhere have generated returns ranging from 20% to 59%, with an average of 28%[2] – much higher than any other low-risk investments they make, and higher than many high-risk ventures.

Another analysis of large corporations' energy efficiency measures found that they got an average 33% return on investment,[3] substantially better than typical endowment returns.[4] Projects financed by these funds also help protect institutions from future increases in energy costs. It is more efficient and cost-effective to improve building energy efficiency all at once rather than piecemeal over time; green bonds and GRFs therefore result in greater profits for investors.

Does this make sense for Cambridge?

The University of Cambridge came in 113th of 143 universities in the Green League rankings in 2013, in large part due to its energy usage.[5] With 300 buildings and an annual utility bill topping £15.6 million - not including colleges[6] - Cambridge could support one of the largest green bond issuances or GRFs in history. The University of Cambridge could also set up its own Energy Service Company (ESCO), which would allow it to retain profits from performing the retrofits itself.

This ESCO could eventually perform retrofits in the Cambridge region, for example in hospitals and schools, lowering emissions and making money for local institutions and the University.

The University of Cambridge would be well-placed to do this due to its ample technical expertise and its experience working with buildings from an unusually wide range of architectural eras.

Forceful Stewardship

What is forceful stewardship?

Forceful stewardship involves cooperation among large shareholders to win votes at companies' Annual General Meetings (AGMs). Institutional investors (large funds such as pensions and university endowments that manage many people's money) own about a third of the global market. In the US, they own 67% of all stocks. [1]

If these investors were to band together as a group in order to win votes, they could change companies' policies and practices.

Most shareholder engagement on environmental issues to date has focused on reporting and disclosure of climate change risk or carbon emissions – which is great, but not sufficient to prevent catastrophic climate change.

Why would shareholders vote against their own interests?

They wouldn't, and they don't have to. Most companies serve the needs of short-term shareholders; institutional investors like Cambridge typically invest long-term because investors pay a penalty every time they sell a share, which adds up over time.

They should therefore push for changes that will pay off in the long term.

Institutional investors are often "universal owners" – they own a slice of most or all companies in the market. Only 8% of shares listed on the stock exchange are fossil fuel stocks, so it doesn't make sense to put the other 92% at risk of climate change for the sake of that 8%.

If any industry does well at the expense of too many other stocks, this is a problem for universal owners.

Could forceful stewardship work?

Yes. Shareholders have not been sufficiently coordinated or ambitious to date, but highly respected institutions such as the University of Cambridge have the clout to pull together a large coalition of investors.

Fossil fuel companies might also be especially suited to forceful stewardship - recent studies have shown that they fit the profile of the sorts of companies for which shareholder engagement is actually successful.[2&3]

Forceful Stewardship

What are some examples of forceful stewardship strategies?

Investments in especially dirty and expensive fossil fuel projects are risky for investors. The recent unexpected drop in oil prices is a great example of how quickly and easily these projects can get into trouble.

Most fossil fuel reserves will have to stay in the ground if there is action on climate change (even if *any* legislation is enacted, some reserves will be abandoned).

Investors could push for a halt to all company expenditures into new exploration and development in the Arctic, the Canadian oil sands, and other extreme energy sources.

These projects take a long time to set up and become profitable, and assets could be stranded by new legislation before any profit is made.

Using capital meant for risky projects to instead pay higher dividends (payouts to shareholders of company profit) could help win support from both long- and short-term shareholders.

Because some fossil fuel reserves must remain unused, fossil fuel companies now have a sound basis for abandoning reserves whose exploitation would be especially dirty and inefficient.

Shareholders could push these companies to adopt business plans consistent with 2°C of warming. The companies could reach their profit targets while avoiding risky "extreme energy" projects. They could focus instead on conventional (cheaper, less risky) oil and gas while those fuels remain legal, and on transitioning into renewable energy (including research), or other responsible business activities in which they have expertise.

Most large fossil fuel companies have a renewable energy division. BP once had 6% of its investments in renewable energy. Shell and Chevron both have approximately 2.5% of investment directed toward green energy.[4]

Shareholders could also halt fossil fuel companies' lobbying against carbon taxes and/or climate change legislation.

In some ways this could be more effective than any other measure, in that it makes the necessary legislation more likely to happen by removing its most significant barrier - vested interests in the fossil fuel sector.[5]

Initiatives with great potential in this area include The Forceful Stewardship Programme and The Red Lines Voting Initiative.

Pooled Renewable Energy, Venture Capital Funds, and Green Bonds

What is a pooled fund?

A number of investors put their money together, sharing the risk and returns of the pooled investment. Pooled funds are convenient for large institutional investors such as the University of Cambridge who would otherwise have to manage a lot of small investments themselves.

What is venture capital?

Funds directly invested in new companies that are usually high-risk and potentially high-return. A large percentage of new business projects (ventures) fail, but early investors in successful start-ups sometimes make lots of money.

What are green bonds?

Investors lend money to companies by buying their bonds. Green bonds finance low-carbon projects like energy efficiency retrofits or renewable energy infrastructure. Cambridge could invest in green bonds via a switching strategy (purchasing green bonds gradually, and only when the pricing/risk profiles are right) rather than a mandate strategy, which could be restrictive. This would prompt our fund managers to look for good green bond options that they could then offer to other clients; many would be delighted to develop such options but clients rarely ask for it. This could be a big help in developing the burgeoning green bond market.

Why do we need new investment in renewable energy & green technology?

To avert climate change we need $1 trillion more *per year* to be spent on green infrastructure over the next 36 years.[1] Investors will have to step up to the plate - and institutional investors have the money and long-term incentives to do that.

What are the advantages of direct investment in green tech & infrastructure?

Long-term investors especially gain from investing in infrastructure, because they are uniquely able to wait through the construction and payback phases to start making a profit. Infrastructure investments also hedge (protect) against inflation, add to the "diversification" of a portfolio because they do not move with the market, and match the long-term priorities of pension funds and endowments[2] - so they're smart investments for long-term investors.

Why doesn't Cambridge already invest in these sectors?

There are various reasons. For instance, investors are uncertain about government subsidies of green energy projects.[3] Renewable energy can be high-risk and low-return, and institutional investors may not feel equipped to invest in developing businesses, preferring larger, more established firms instead.

How feasible are such strategies for Cambridge?

The Cambridge University Endowment Fund co-founded Cambridge Innovation Capital (CIC), a venture capital fund focusing on start-ups.[4] Whether through CIC or another body, it's clear the University would be able to do something similar for green technology, or at least apply a "green filter" to its existing investments.

Divestment

What is divestment?

Divestment involves selling all shares in unethical companies. The global fossil fuel divestment campaign launched in the fall of 2012; to date hundreds of universities, municipalities, religious institutions, and foundations have divested. [1] It has grown faster than any other divestment campaign in history. [2]

Does divestment work?

The fossil fuel divestment campaign has undoubtedly brought the issue of climate change to the fore, on an unprecedented scale and astonishingly swiftly. Divestment does not directly affect companies' share prices or their ability to attract investment because the shares are simply sold, at the price they are worth, to different shareholders and companies who don't share divesters' ethical concerns. [3]

If divestment happens on a large enough scale, however, it *can* affect companies' public image and exert pressure on governments to enact legislation.

An influential meta-analysis from Oxford concluded: "In almost every divestment campaign we reviewed from adult services to Darfur, from tobacco to South Africa, divestment campaigns were successful in lobbying for restrictive legislation affecting stigmatised firms". [4]

Socially Responsible Investment (SRI) Funds

What are SRI funds?

SRI funds invest selectively in companies deemed socially responsible.

Some avoid certain companies (a negative screen) and others actively seek out companies that meet their ethical standards (positive screen).

With the rise of the fossil fuel divestment movement, fossil-free funds and indices (stocks from many companies bundled together) have become popular.

Does SRI work?

Like divestment, SRI funds do not affect share prices or cost of capital for companies, ethical or not - they have no positive financial effect on good companies, and no negative financial effect on bad companies.

SRI funds tend not to have the delegitimising effect on companies that divestment can have, so some people view them as "greenwashing" (cosmetic but ineffective). That said, SRI may put pressure on companies to be seen as "best in class"; this could help to improve company standards over time.

Does SRI reduce investors' financial returns?

There is conflicting evidence on this question, but most studies on the returns of SRI funds find neutral or positive effects, especially in the long term.[1] There is general agreement that exclusion of fossil fuel investment from a portfolio would not substantially increase risk.

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Images

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