



Response to invitation to engage on University of Cape Town Endowment Fund's Fossil Fuel Investments

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Investor power for a fairer South Africa

University Panel for Responsible Investment (UPRI)

University of Cape Town

By email: upri-group@uct.ac.za

14 May 2021

Dear members of the University Panel for Responsible Investment

INVITATION TO ENGAGE ON MATTERS RELATING TO THE UNIVERSITY OF CAPE TOWN ENDOWMENT FUND'S FOSSIL FUEL INVESTMENTS

1. Just Share NPC is a non-profit shareholder activism organisation. We believe that responsible investment is required to create a more just, inclusive and sustainable economy. We use research, advocacy, engagement and activism to drive urgent action to combat climate change and reduce inequality
2. We commend the UPRI for taking this step in engaging on its fossil fuel investments, and we welcome the opportunity to provide our views to the UPRI, particularly relating to the endowment's potential divestment from fossil fuels.
3. At the public launch of the UPRI in April, Professor Tom Moultrie acknowledged the reality of anthropogenic climate change, citing its global import as the reason for this consultation. We believe that it is important for the UPRI's Responsible and Sustainable Investment Policy explicitly to acknowledge the urgency of the climate crisis, its impacts and potential impacts on southern Africa, and the role that financial flows must play in ensuring a rapid global reduction of carbon emissions.
4. The Intergovernmental Panel on Climate Change's Special Report on Global Warming of 1.5°C demonstrates that limiting temperature rise to 1.5°C (crucial to limit the most catastrophic elements of the climate crisis) requires "rapid, far-reaching and unprecedented changes in all aspects of society" including reducing global CO2 emissions by 45% by 2030. This means that "no institution or individual can stand on the sidelines in the fight against climate change".¹

Argument for divestment

5. As the UPRI will be aware, the rationale for fossil fuel divestment as a responsible investment strategy is to starve destructive industries of capital and, in the words of Bill McKibben, to 'revoke the social license of the fossil fuel industry.'

¹Kristalina Georgieva (Managing Director of the IMF, [2019](#))



6. For funds with a long-term investment outlook, the financial argument that the fossil fuel industry is a poor and risky investment is also relevant. If the world is to meet the goals of the Paris Agreement to limit global temperature rise to well-below 2°C above pre-industrial levels (and preferably to 1.5°C), economies must urgently and drastically transition away from their dependence on fossil fuels. This means that any such investments have a limited life-span at best.
7. Divestment should also not end at withdrawal from fossil fuels, but should be coupled with an increase in allocation of capital to low-carbon and socially responsible investments that make a positive contribution to the just transition.

Divestment versus engagement

8. There is a role for engagement with fossil fuel companies, but this role is increasingly limited as it becomes clear that the leadership of these companies is not willing to make the difficult decisions that must be made this decade, in order to align their business strategies with the goals of the Paris Agreement. Engagement is a time- and resource-intensive, slow, and frustrating process. The UPRI has acknowledged that it has little capacity for engagement, and is unlikely to be able to allocate sufficient capacity and time to this process.
9. Even if there were capacity for engagement, however, we would argue that engagement is not an appropriate strategy (at least as a primary tool) for a university endowment fund. In fact, university endowment funds are uniquely well-positioned to divest from fossil fuels due to their investment mandate, and their role as leaders in society.

Investment mandate

10. The UCT endowment fund does not distribute profits to shareholders, but rather aims to protect its investment for the long-term benefit of the institution and its members. The endowment fund is an asset owner with a unique purpose, a vital institution that functions for the good of society. As part of an institution responsible for the education of generations of South Africans, the UCT endowment fund's mandate is inextricably linked to long-term sustainability. As the university prepares the next generation to lead and participate in the future of the country, the endowment fund's trustees must be certain that the fund is not contributing to the destruction of the potential for that future to be one characterized by justice, inclusion and sustainability.

The role that UCT plays as a leader on climate action

11. UCT, as an institution which provides thought-leadership on climate change, and engages in ground-breaking scientific research, should lend its significant moral weight to the acceleration of policies and actions which support a just transition to a low-carbon economy. This is even more essential given the university's location in sub-Saharan Africa, a region particularly vulnerable to the physical and adaptation risks of climate change.
12. The rhetoric around climate action is characterised by inconsistency and hypocrisy. As an academic institution hosting some of the continent's foremost climate experts, it is essential for



UCT to show the market that knowledge can and must lead to action, especially given the lack of leadership on climate action in the country, in both the public and private sectors.

13. This unique role of universities has been made clear by a number of recent, high profile divestments. For example, in April 2020, [Oxford University](#) announced its plans to immediately divest its endowment formally from the fossil fuel industry, and to ask its endowment managers to engage with fund managers on matters relating to the transition. [Yale University](#), too, has recently recognised the urgency and existential threat of climate change. It has laid out a set of 5 principles that expressly address the activities, behaviours, and characteristics of fossil fuel companies that constitute “social injury of such grave character that divestment is warranted.” There are a number of examples of universities announcing their decisions to divest from fossil fuels and providing timelines for net zero exposure before 2040, including [Cambridge University](#) and [Edinburgh University](#).

Impact of divestment

14. We note that the UCT endowment fund’s exposure to fossil fuels is relatively small. As of 2020, it accounted for approximately 2.5% of the university endowment’s total assets, and about 5% of its domestic equity exposure. The impact of divestment on the fund’s returns, therefore, is unlikely to be significant. But, as we have set out above, the broader impact of public divestment would be the message it would send about the urgent need to ramp up our country’s climate action, and to improve accountability and transparency around climate action in the investment sector.

The Just Energy Transition

15. The transition away from a high carbon economy must be just and equitable. This is an imperative all over the world, and particularly so in South Africa. Our economy’s over-exposure to fossil fuels means that hundreds of thousands of jobs depend either directly or indirectly on high carbon industries. In addition, the high levels of poverty and the government’s poor adaptation capacity mean that the population is especially vulnerable to the impacts of climate change.
16. The answer, however, is not to ignore the problem altogether and continue our reliance on these industries but, rather, to prepare for it as early, carefully and deliberately as possible. Divestment will help to drive home the message – to industry, institutional investors and policy-makers – that they can no longer continue with business as usual.

Conclusion

17. In conclusion, we submit that there is little justification for the endowment fund’s continued investment in fossil fuels. UCT’s convocation has previously voted in favour of divestment, signaling consensus within the university community.
18. Divestment from fossil fuels is in keeping with the UPRI’s mandate, as described in its Terms of Reference, and will also align with the Principles of Responsible Investment, the UN Sustainable Development Goals and with UCT’s own articulation of its vision of “contributing to the creation



of a fair and just society, in which the University seeks to redefine and co-create a sustainable global future.”

Yours faithfully

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per: 

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