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Fossil Fuel Investments at the University of Tasmania

Case Study and Analysis

This document outlines the case for divestment at the University of Tasmania. It assesses the financial performance of the University of Tasmania's direct fossil fuel investments and concludes that due to financial underperformance and increased financial risk the university should take immediate steps to suspend its investments in fossil fuels

Direct fossil fuel investments held by the University of Tasmania

The analysis below constructs a case study of a fossil fuel portfolio using historical data obtained through right to information requests from the University of Tasmania. The analysis provides an insight into the 10 month performance of the fossil fuel stocks directly held by the University of Tasmania. The analysis is based on the assumption that investments made directly by the university as of 30 June have not been sold.

The table below shows a massive write down in the investments in two 'pure play' fossil fuel companies. A 'pure play' fossil fuel company is usually one whose primary business is the extraction of fossil fuels.

In this analysis the two companies that receive the most scrutiny are New Hope (Coal Mining) and Woodside Petroleum (Oil and Gas). As displayed in the fourth column of the table below, if the university has maintained its investments in these two companies for the last 10 months they would have lost \$115,000. New Hope is an Australian medium tier coal miner with holdings in bulk handling (coal shipping). The export market for coal has declined significantly, depressing new and existing demand. New Hope's share price and the value of the shares owned by the university have fallen by 17.08%.

Woodside Petroleum is an Australian large tier Oil and Gas company. In the last 12 months international oil prices have fallen, as a steady increase in supply emerged from shale producers in the US; prompting a strategic response from Saudi Arabia. Woodside Petroleum's share price and the value of the shares owned by the university have fallen by 13.98%.

The loss from these two companies has not been offset by the diversified players in the portfolio. Washington H Soul Pattinson have interests in coal mining, but they have a diversified portfolio across other holdings. The same applies to Wesfarmers who own significant holdings in the retail sector. AGL Energy is largely dependent on energy generation from coal fired power plants; they also have holdings in natural gas projects. However they are somewhat diversified with a retail power provider arm and interests in renewable energy. By diversifying their holdings these companies have dodged the current structural decline that is prevalent in the fossil fuel industry.

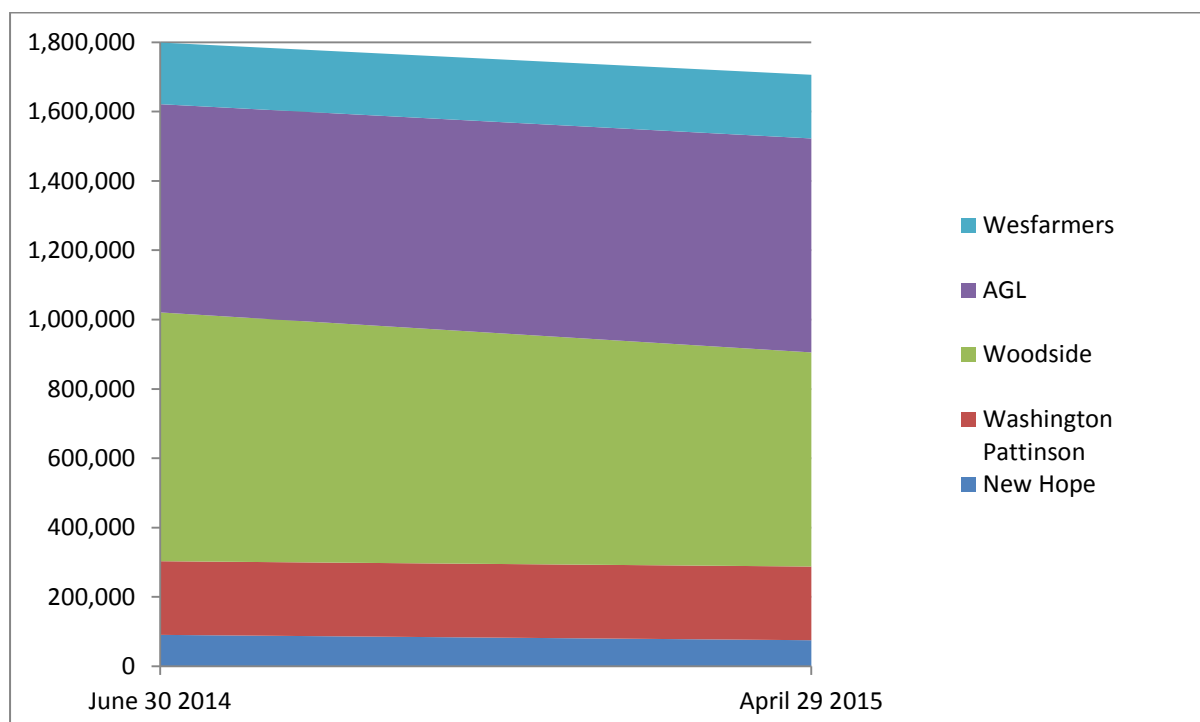
The table below shows that the University of Tasmania has lost \$92,906 if they have held their investments in these five companies, with the stand out losers being non-diversified 'pure play' fossil fuel companies.

Table One – University of Tasmania direct investments in fossil fuels, June 2014 – April 2015, predicted profit and Loss:

| <u>Company (name)</u> | <u>Value 30 June 2014 (\$)</u> | <u>Value 29 April 2015 (\$)</u> | <u>Profit/loss (\$)</u> | <u>Profit/loss (%)</u> |
|---|--------------------------------|---------------------------------|-------------------------|------------------------|
| New Hope Corporation Limited | 90,718 | 75,226 | -15,492 | -17.08% |
| Woodside Petroleum Limited | 717,549 | 617,612 | -99,937 | -13.93% |
| Washington H Soul Pattinson & Company Limited | 212,400 | 212,544 | 144 | +0.07% |
| AGL Energy Limited | 600,624 | 617,068 | 16,444 | +2.74% |
| Wesfarmers Limited | 177,695 | 183,630 | 5,935 | +3.34% |
| Total | 1,798,986 | 1,706,080 | -92,906 | -5.16% |

Please note the information in the second column above was obtained from right to information requests received by Fossil Free UTAS on the 30 June 2014. The calculations columns represent the profit and loss if these holdings remain unchanged today. The third column is the value of investments calculated on the 29 April, 2015.

Graph One – University of Tasmania direct investments in fossil fuels, June 2014 – April 2015, predicted profit and Loss:



Divestment is financially pragmatic:

There is a strong business case for the university to divest its direct investments and managed funds from companies whose core business is the extraction, transportation and combustion of fossil fuels. All case studies indicate that portfolios which do not hold fossil fuel companies tend to meet or exceed the market average in their sector¹ with a negligible net increase in risk.²

There is increasing consensus among analysts that governments will begin to discourage investment in fossil fuel in the short term in reaction to the threats posed by anthropogenic climate change. Thus far this has led to a controlled exit of capital from fossil fuel companies, but there is approximately \$20 trillion of fossil fuel reserves accounted for as assets by global markets, of which 80% cannot be extracted or combusted if temperature rise is to be limited to (the largely arbitrary target) of 2 degrees C. There is a substantiated and growing risk that a “carbon bubble” could cause massive write downs in the value of fossil fuel stocks.³ Such is the risk posed by this scenario that the Governor of the Reserve Bank of England, Mark Carney voiced his concern on the issue in late 2014.⁴

When we examine the university’s current direct investments in fossil fuels we see that pure play fossil fuel stocks are performing poorly, which significantly strengthens the argument that they should not be on the balance sheet. This is the case in the Australian and global share markets, where these pure play fossil fuel companies are being battered by high capital costs, reduced international commodities demand and tough competition from large diversified players. A look at the international commodities price list will confirm that oil, gas, thermal and metallurgical coal prices have all retreated from high water marks of 24 months ago. The market is broadly split on whether this is a cyclical downturn (therefore an investment opportunity) or a structural decline in the market. It is the position of this study that the market has not yet correctly priced in the risk of significant international and domestic pressure on these industries as a result of multilateral efforts to curb carbon pollution.⁵

The most financially pragmatic course for the university is to focus on its core business of education, to halt any immediate trading in pure play fossil fuel companies until the market resolves the question of whether the industry is in structural decline or merely a cyclical downturn. In the meantime a review of the investment policy ought to be undertaken to assess whether proper due diligence and fiduciary duties are being carried out when determining the risks posed by investing in the fossil fuel industry.

¹ Responsible Investment Association of Australia, [Responsible Investment Benchmark](#), 2013

² Aperio Group, [Do the Investment Math: Building a Carbon Free Portfolio](#), 2013.

³ Carbon Tracker, [Unburnable Carbon: are the world’s financial markets carrying a carbon bubble?](#) 2012

⁴ SRI UK, [Mark Carney & the Case for Fossil Fuel Divestment](#), 2014

⁵ IEEFA, [Fossil Fuels, Energy Transition & Risk](#), 2014