Frequently Asked Questions About the Vermont Fossil Fuel Divestment Bill (S.42)

Third Act Vermont – Divestment Action Team[1]
(Revised 10/23/2023)

"Helping to fund the destruction of our environment is insanity; profiting from it makes us complicit." --LA Times editorial in support of divestment legislation[2]

What is S.42, the Fossil Fuel Divestment Bill?

Senate Bill 42 (S.42), the Fossil Fuel Divestment Bill,[3] is designed both to protect the long-term value of Vermont's pension funds and to address the climate crisis caused by burning fossil fuels. It does this by requiring the Vermont Pension Investment Commission (VPIC) to create a plan "in accordance with sound investment criteria" for divestment from risky fossil fuel investments and to implement this plan over the next seven years. The bill complements Vermont's efforts to decarbonize the state by decarbonizing its investments.

The bill exempts de minimis investments in fossil fuel companies (defined as less than 2% of VPIC's holdings). It also exempts private investments but sets a goal of divesting from private investments by 2040 if this can be done in a way that is financially prudent.

Vermont State Treasurer Mike Pieciak supports divestment for the long-term health of the fund. He serves as one of VPIC's commissioners and has been involved in negotiating amendments to the bill. He testified in support of the amended version. The Vermont Senate passed S.42 as amended on a vote of 22-8 in March 2023. The bill is currently being considered by the House Government Operations and Military Affairs Committee.

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[1] This FAQ was drafted by Divestment Action Team members and edited by members of Third Act Vermont and others. Website: https://thirdactvt.org/ Please contact David McColgin with any questions or comments at davidmccolgin@yahoo.com.

[2] Los Angeles Times, *Editorial: California should stop investing its retirement funds in fossil fuels. They're risky and immoral.* (June 16, 2023). Available at: https://www.latimes.com/opinion/story/2023-06-16/california-pension-funds-fossil-fuel-divestment

[3] Vermont General Assembly, Bills and Resolutions, S.42: *An act relating to divestment of State pension funds of investments in the fossil fuel industry*. Available at: https://legislature.vermont.gov/bill/status/2024/S.42

What are the financial reasons for divestment?

The fossil fuel industry has underperformed the market for the last decade and has a negative long-term outlook. As explained in a recent report by independent financial analysts at the Institute for Energy Economics and Financial Analysis (IEEFA), "Divestment is a defensive tool employed to protect investors from the loss of value - losses as certain as climate change's global reach."[4] The sector has simply lost its financial rationale.

Fossil fuels have underperformed the overall stock market in eight years since 2012 and performed worst among all sectors in five of those years. While fossil fuels made up 29% of the Standard and Poor's 500 stock index in 1980, they now account for only 4% after declining to 2% in 2020.[5]

The industry saw a temporary spike in oil prices and profits in 2021 and 2022, but these results are not replicable for the industry: the spike in oil prices was caused by Russia's invasion of Ukraine rather than an improvement in the industry's long-term economic fundamentals. The invasion's impact did not reverse the previous decade of poor performance, with fossil-free stock market indices like

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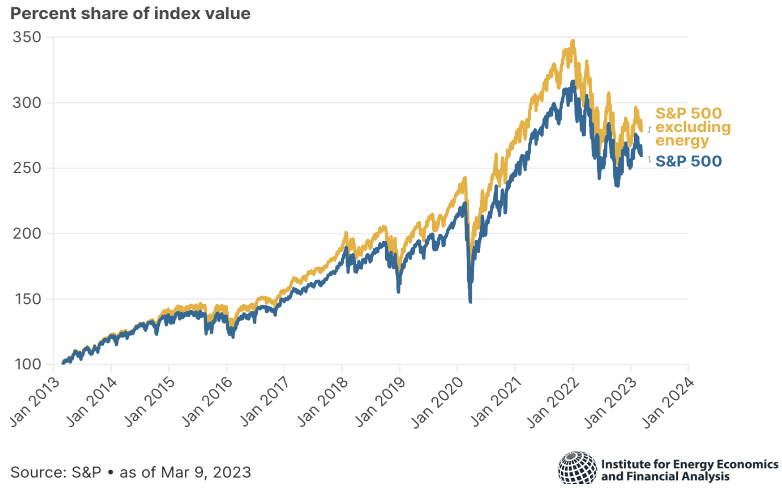
[4] Tom Sanzillo, Dan Cohn and Connor Chung, *Two economies collide: Competition, conflict, and the financial case for fossil fuel divestment,* p.1, Institute for Energy Economics and Financial Analysis (IEEFA) (Oct. 13, 2022). Available at: https://ieefa.org/resources/two-economies-collide-competition-conflict-and-financial-case-fossil-fuel-divestment

[5] S&P 500 Index Fact Sheet (Aug 31, 2023). Available at: https://www.spglobal.com/spdji/en/idsenhancedfactsheet/file.pdf?calcFrequency=M&force_download=true&hostIdentifier=48190c8c-42c4-46af-8d1a-0cd5db894797&indexId=340

the S&P 500 ex-Energy outperforming the full S&P 500 on a ten-year basis.[6] Oil prices and profits have receded in 2023 thus far and fossil fuels are once again underperforming the market.[7]



Looking forward, the fossil fuel industry faces a range of challenges that will continue to make it a risky investment: The industry will face unstable oil prices that rise and fall outside of its control. It will face competing technologies using cheaper clean energy that displace oil, gas, and coal in key end-markets, including electric vehicles in the transportation sector, renewable energy in the electricity sector, and heat pumps in commercial and residential heating. It will face an uncertain demand and regulatory environment in the petrochemical sector. And it will have to contend with the industry's own low-carbon technologies that have thus far failed to reach commercial viability, such as carbon capture and sequestration.[8]

Like the tobacco and opioid industries, the fossil fuel industry also faces the prospect of having to pay huge damage awards as a result of lawsuits filed in more

[6] S&P 500 Ex-Energy Index Fact Sheet (Aug. 31, 2023). Available at: https://www.spglobal.com/spdji/en/idsenhancedfactsheet/file.pdf?calcFrequency=M&force_download=true&hostIdentifier=48190c8c-42c4-46af-8d1a-0cd5db894797&indexId=92030243

[7] Dr. Edward Yardeni, et al. *Performance 2023: S&P 500 Sectors & Industries*, p.1, Yardeni Research, Inc. (Sept 7, 2023). Available at: https://www.yardeni.com/pub/peacockperf.pdf.

[8] Tom Sanzillo, Dan Cohn and Connor Chung, *Two economies collide: Competition, conflict, and the financial case for fossil fuel divestment,* pp.1-3, Institute for Energy Economics and Financial Analysis (IEEFA) (Oct. 13, 2022). Available at: https://ieefa.org/resources/two-economies-collide-competition-conflict-and-financial-case-fossil-fuel-divestment; Christine Clark, *Why commercialization of carbon capture and sequestration has failed and how it can work,* Science Daily (Mar. 22, 2021); Available at: https://www.sciencedaily.com/releases/2021/03/210322174959.htm.

than forty cities, counties, and states across the country.[9] In September 2023, California became the most recent state to file suit, targeting five major oil companies (ExxonMobil, Shell, Chevron, ConocoPhillips and BP) plus their major trade association, the American Petroleum Institute.[10] The suit alleges that these companies have destroyed natural resources by exacerbating climate change. It also alleges they have engaged in false advertising to encourage use of fossil fuels and have made false environmental marketing claims. The suit seeks to establish an abatement fund to pay for mitigation and adaptation to climate change and future harms.

The fiduciary obligation of VPIC to maximize the value of the pensions it manages requires it to consider these risks and counsels in favor of divesting from fossil fuels to avoid losses.

What have financial experts said about the fiscal impact of fossil fuels divestment on the funds?

Two major financial management firms, BlackRock and Meketa, concluded in 2020 that **investment funds that have divested from fossil fuels have experienced no negative financial impacts**. In fact, they found evidence of modest improvement in fund return.[11] Other studies have reached the same conclusion, finding that the failure of pension funds to divest has cost them billions of dollars over the last decade.[12]

Former SEC Commissioner and fiduciary law expert Bevis Longstreth has noted that by not divesting, funds open themselves up to financial and legal risk: "the fossil-fuel industry's business model is now so misaligned with scientific and financial reality," Longstreth has noted, that financial exposure risks being "not just misguided," but "negligently wrong as a matter of law."[13]

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[9] Center for Climate Integrity, *Climate Accountability Lawsuits; Cases Underway to Make Climate Polluters Pay*. Available at: https://climateintegrity.org/cases

[10] *California v. Exxon Mobil, et al., (*filed Sept. 15, 2023, CA Super. Ct, San Francisco). Available at: https://oag.ca.gov/system/files/attachments/press-docs/FINAL%209-15%20COMPLAINT.pdf

[11] Tom Sanzillo*, Major investment advisors BlackRock and Meketa provide a fiduciary path through the energy transition,* Institute for Energy Economics and Financial Analysis (Mar. 22, 2021). Available at: https://ieefa.org/resources/major-investment-advisors-blackrock-and-meketa-provide-fiduciary-path-through-energy

[12] Fossil Free California, REPORT: *CalPERS & CalSTRS lost over $9.6 billion by not divesting from fossil fuels 10 years ago,* (June 28, 2023). Available at: https://fossilfreeca.org/report-calpers-calstrs-lost-over-9-billion-by-not-divesting-from-fossil-fuels/

[13] Bevis Longstreth and Connor Chung, *Finance Must Combat Climate Change — Or Else*, Project Syndicate (Nov. 9, 2022). Available at https://www.project-syndicate.org/commentary/institutional-investors-must-divest-from-fossil-fuels-by-bevis-longstreth-1-and-connor-chung-2021-1.

Treasurer Pieciak has testified and spoken in support of S.42: "The first thing as treasurer is to do no harm to the pension system — I don't believe this bill does that," Pieciak said. "Then you also need to look at the financial risk of investing in fossil fuels over the short, medium and long term. And I think this bill creates a framework to do just that and to reduce our risk over time."[14]

Financial expert Tom Sanzillo, Director of Financial Analysis for IEEFA, also testified in favor of S.42. He stated, "The claim that investments in fossil fuels are in the best interest of the members of the retirement system does not comport with the industries' return profiles or the outlook for the future." Instead, VPIC's investments in the fossil fuels "are losing value for the fund and dragging down the ability of the fund to meet its financial targets."[15]

What are the environmental reasons for divestment?

The pollution from burning fossil fuels (coal, gas, and oil) is overheating our climate. In 2023, the world experienced the hottest June in the 174-year global climate record as well as the hottest ocean temperatures ever recorded.[16] Climate scientists have concluded the earth is now the hottest it has been in 125,000 years. The cause is the burning of fossil fuels which create greenhouse gasses that overheat the planet.[17] This overheating is causing extreme weather, like droughts, flooding, tornados, hurricanes, wildfires, and deadly heat waves. This summer, Vermont experienced catastrophic flooding and the worst air quality ever recorded, resulting in detrimental impacts on Vermont's forests, agriculture, human health, infrastructure, housing, transportation, and food security.[18] FEMA's chief Vermont

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[14] Lexi Krupp, *State treasurer supports legislation to divest Vermont pension fund from fossil fuels,* Vermont Public (Sept 29, 2023). Available at: https://www.vermontpublic.org/local-news/2023-09-29/state-treasurer-supports-legislation-to-divest-vermont-pension-fund-from-fossil-fuels

[15] Tom Sanzillo, *Testimony to Vermont House Committee on Government Operations and Military Affairs*, p.3 (April 27, 2023). Available at: https://legislature.vermont.gov/committee/DocumentSearchForm/?Keywords=divestment&action_doDocumentSearch=&SecurityID=df42dab47759477d1c3675b7700dc9e04c6c5320&Biennium=2024&CommitteeID=14&Body=

[16] National Oceanic and Atmospheric Administration, *Earth just had its hottest June on record* (July 13, 2023). Available at: https://www.noaa.gov/news/earth-just-had-its-hottest-june-on-record

[17] Jeff Tollefson, *Earth is Warmer Than It's Been in 125,000 Years,* Scientific American, (Aug. 9, 2021). Available at: https://www.scientificamerican.com/article/earth-is-warmer-than-its-been-in-125-000-years/

[18] Jonathan Mingle, *Even 'Safe' Places Are Experiencing Climate Chaos in America,* New York Times (July 13, 2023). Available at: https://www.nytimes.com/2023/07/13/opinion/floods-vermont-new-york-heat-climate-change.html

official, Will Roy, has estimated the damages from the floods, which were made worse by climate change, at about $120 million.[19]

With the global overheating that has already taken place, more than 600 million people are now living outside of the environmental niche that best supports life. And for every two-tenths of a degree of overheating above 2.7 degrees Fahrenheit from pre-industrial levels, an additional 140 million more will be pushed outside this life supporting niche, causing rising food scarcity and increased death rates.[20]

In addition to causing global overheating, burning fossil fuels has direct effects on health and mortality. New research from Harvard University found that air pollution from burning fossil fuels was responsible for about one in five deaths worldwide. The research also found that transitioning from fossil fuels to clean energy has immediate health benefits, including preventing disease and premature deaths.[21]

The International Energy Agency (IEA) has concluded that in order to meet the goal in the Paris Climate Accord of limiting global over-heating to 2.7 degrees, all new fossil fuel developments *must stop immediately*.[22] But the fossil fuel industry plans to spend $1.5 trillion on new fossil fuel developments by 2040.[23] The industry has already discovered roughly five times more oil, gas and coal reserves than the world can afford to burn and still stay within the 2.7 degree limit.[24] Mining and burning these fossil fuels will make it impossible to meet international climate goals and will result in widespread death and destruction from catastrophic climate change.

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[19] Bob Kinzel, *Price of flood damage in VT. Crosses threshold for more federal reimbursement,* Vermont Public (Oct. 2, 2023). Available at: https://www.vermontpublic.org/local-news/2023-10-02/price-of-flood-damage-in-vt-crosses-threshold-for-more-federal-reimbursement

[20] Abraham Lustgarten, *Climate Crisis Is on Track to Push One-Third of Humanity Out of Its Most Livable Environment*, ProPublica, June 6, 2023. Available at: https://www.propublica.org/article/climate-crisis-niche-migration-environment-population.

[21] *Fossil fuel air pollution responsible for 1 in 5 deaths worldwide*, Harvard T.H. Chan School of Public Health (Feb. 9, 2021). Available at: https://www.hsph.harvard.edu/c-change/news/fossil-fuel-air-pollution-responsible-for-1-in-5-deaths-worldwide/?active_tab=1&articles_page=11&research_page=2#:~:text=Worldwide%2C%20air%20pollution%20from%20burning,population%20of%20New%20York%20City

[22] International Energy Agency (IEA), *Net Zero by 2050, A Roadmap for the Global Energy Sector* p. 21 (May 2021). Available at: https://www.iea.org/reports/net-zero-by-2050; *See also* Kelly Trout, et al*., Existing fossil fuel extraction would warm the world beyond 1.5 °C,* IOP Science, Environmental Research, Letters (May 17, 2022). Available at: https://iopscience.iop.org/article/10.1088/1748-9326/ac6228

[23] Global Witness, *IPCC clarion call puts spotlight on fossil fuel industry's hypocrisy*, (Apr. 12, 2022). Available at: https://www.globalwitness.org/en/campaigns/fossil-gas/ipcc-clarion-call-puts-spotlight-on-fossil-fuel-industrys-hypocrisy/.

[24] Tim Donaghy, *8 reasons why we need to phase out the fossil fuel industry*, Greenpeace (Nov. 22, 2021). Available at: https://www.greenpeace.org/usa/research/8-reasons-why-we-need-to-phase-out-the-fossil-fuel-industry/

As UN Secretary General António Guterres stated following release of the 2022 IPCC report on the global climate crisis, "Investing in new fossil fuels infrastructure is moral and economic madness. Such investments will soon be stranded assets — a blot on the landscape and a blight on investment portfolios."[25]

Vermont should not invest in an industry that is over-heating the earth and causing catastrophic climate change both in Vermont and around the world.

Is divestment widespread?

The fossil fuel divestment movement is "the fastest growing divestment campaign in history."[26] Globally, over 1,500 institutional investors, including pension plans, faith-based organizations, businesses, municipalities and educational institutions, with assets valued at more than $40 trillion have committed to divestment.[27] These include Vermont institutions such as Middlebury College and the University of Vermont, as well as other leading universities such as Harvard, Yale, Princeton, and Cornell. Others include the New York City Employees Retirement System, Teachers Retirement System of New York City, the Church of England, and the Vatican.

The financial logic of the divestment movement has been increasingly accepted by large financial institutions. Major banks, asset managers, and insurers are implementing policies to reduce fossil fuel exposure in light of the financial risks posed by the industry.[28]

Is divestment effective?

Empirical studies have validated the effect of divestment on the fossil fuel industry. One recent study examined financial data across 33 countries from 2000 to 2015. It found "that increasing oil and gas divestment pledges in a country, particularly where these are signaled by non-financial organizations and non-governmental organizations (NGOs), are associated with lower new capital flows

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[25] United Nations Press Release, Secretary General, *Secretary-General Warns of Climate Emergency, Calling Intergovernmental Panel's Report 'a File of Shame', While Saying Leaders 'Are Lying', Fueling Flames* (April 4, 2022). Available at: https://press.un.org/en/2022/sgsm21228.doc.htm

[26] Theodor F Cojoianu, et al., *Does the fossil fuel divestment movement impact new oil and gas fundraising?* Journal of Economic Geography, Volume 21, Issue 1, January 2021, pp. 141–164. Available at: https://doi.org/10.1093/jeg/lbaa027.

[27] Global Fossil Fuel Divestment Commitments Database. Available at: https://divestmentdatabase.org/.

[28] Saurabh Trivedi and Shantanu Srivastava, *200 And Counting*, IEEFA (May 4, 2023). Available at: https://ieefa.org/resources/200-and-counting-global-financial-institutions-are-exiting-coal.

to domestic oil and gas companies."[29] Another study found that the public announcement of divestment from fossil fuels has a "negative effect" on fossil fuel firm stock prices.[30]

But the best evidence that divestment weakens the fossil fuel industry is that the industry is fighting against it tooth and nail. The fossil fuel industry has been pumping millions of dollars into supporting the recent push for anti-divestment legislation on the state and federal level through the Texas Public Policy Foundation (TPPF)[31] and a "small army of conservative nonprofits and advocacy groups."[32] Oil and gas company executives started complaining to the TPPF several years ago that banks betting on the energy transition were not loaning them money. As the head of the TPPF, Jason Isaac, stated, "When you can't get access to capital, it's harmful to these industries." The shrinking investment in the fossil fuel industry has been a direct result of the growing divestment movement.

The fossil fuel industry itself has acknowledged the role of the divestment movement in lowering investment in the industry. In 2015, for example, Peabody Energy Corporation stated in filings with the SEC that the divestment movement "could significantly affect demand for our products or our securities." The next year it became the 50th coal company to declare bankruptcy since 2012.[33]

Oil and gas companies such as Shell and ExxonMobil likewise have acknowledged to their shareholders that the divestment movement presents a risk to their ability to grow and profit, stating that "it could have a material adverse effect on the price of our securities and our ability to access capital markets" (Shell), and that it could "negatively affect our investment returns" and reduce demand for fossil fuels while shifting demand "toward relatively lower-carbon alternatives" (ExxonMobil).[34]

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[29] Theodor F Cojoianu, et al., *Does the fossil fuel divestment movement impact new oil and gas fundraising?* Journal of Economic Geography, Volume 21, Issue 1, January 2021, pp. 141–164. Available at: https://doi.org/10.1093/jeg/lbaa027.

[30] Solomon George Zori, et al., *Market reaction to fossil fuel divestment announcements: Evidence from the United States,* Business and Society Review (Dec. 11, 2022). Available at: https://doi.org/10.1111/basr.12295

[31] Mose Buchele, *Texas and other states want to punish fossil fuel divestment,* NPR (March 16, 2022). Available at: https://www.npr.org/2022/03/16/1086764072/texas-and-other-states-want-to-boycott-fossil-fuel-divestment-blackrock-climate

[32] Christina Wilkie, *Senate overturns federal rule on ESG investments, Biden vows to veto*, CNBC (March 1, 2023). Available at: https://www.cnbc.com/2023/03/01/esg-bill-senate-vote-on-overturning-federal-rule-on-esg-investments.html

[33] Georges Alexander Lenferna, *Divestment as climate Justice,* p.90; Climate Justice and the Economy: Social mobilization, knowledge and the political (ed. Stefan Jacobsen) (2018). Available at: https://www.academia.edu/22236651/Divestment_as_Climate_Justice_Weighing_the_Power_of_the_Fossil_Fuel_Divestment_Movement

[34] Tom Sanzillo, Dan Cohn and Connor Chung, *Two economies collide: Competition, conflict, and the financial case for fossil fuel divestment,* p.101, Institute for Energy Economics and Financial Analysis (IEEFA) (Oct. 13, 2022).

Fossil fuel companies have been fighting hard against divestment not just because they lose investment but because they lose political power. For decades, the industry has propagated disinformation and misinformation to delay government action on global warming and to discredit the science of climate change, all the while concealing their own research showing that the science is valid.[35] The use of divestment in the fight against tobacco and the apartheid regime in South Africa demonstrate how effective a tool this can be in shifting political power to allow for change.

Are fossil fuel companies investing in clean energy?

The fossil fuel industry invests so little in clean energy that what they do invest can only be described as "greenwashing." A recent financial analysis of BP, Chevron, ExxonMobil and Shell found insignificant spending on clean energy; their claims of clean energy do not match their actual investments and actions.[36] Likewise, the International Energy Agency (IEA) reports the industry devoted only 1% of its capital expenditures towards developing clean energy, while spending 48% on fossil fuel developments.[37] Compare this to the auto industry, which has for years been spending upwards of 50% of its capital expenditures on electric vehicles.[38]

In Congressional testimony and shareholder meetings, the CEOs of fossil fuel companies focus on extending their operations indefinitely by using carbon capture and biofuels, which are both heavily subsidized by taxpayers and which cannot reliably meet climate goals. Since the business model of the fossil fuel industry is to make money off fossil fuels, the industry cannot be expected to

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Available at: https://ieefa.org/resources/two-economies-collide-competition-conflict-and-financial-case-fossil-fuel-divestment

[35] Christopher M. Matthews, Collin Eaton, *Inside Exxon's Strategy to Downplay Climate Change*, The Wall Street Journal (Sept. 14, 2023). Available at: https://www.wsj.com/business/energy-oil/exxon-climate-change-documents-e2e9e6af?ref=drilled.ghost.io. Jeffrey Pierre, Scott Neuman, *How decades of disinformation about fossil fuels halted U.S. climate policy,* NPR (October 27, 2021). Available at: https://www.npr.org/2021/10/27/1047583610/once-again-the-u-s-has-failed-to-take-sweeping-climate-action-heres-why

[36] Mei Li, Gregory Trencher, Jusen Asuka, Research Article: *The clean energy claims of BP, Chevron, ExxonMobil and Shell: A mismatch between discourse, actions and investments* (Feb. 16, 2022). Available at: https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0263596

[37] International Energy Agency (IEA), *Distribution of cash spending by the oil and gas industry, 2008-2022*, (May 22, 2023). Available at: https://www.iea.org/data-and-statistics/charts/distribution-of-cash-spending-by-the-oil-and-gas-industry-2008-2022

[38] Nathaniel Bullard, *Automakers Are Investing in EVs Like They Mean It,* Bloomberg (Aug. 5, 2021). Available at: https://www.bloomberg.com/news/articles/2021-08-05/automakers-are-investing-billions-of-dollars-in-evs?leadSource=uverify%20wall#xj4y7vzkg

undercut itself by investing heavily in clean energy alternatives that would hasten the demise of fossil fuels.

Numerous independent analyses have found no evidence to support the oil and gas industry's claim of energy transition alignment. A 2023 report by leading investor data clearinghouse CDP, for example, found that over the past year, "there has been little advance – and alarmingly even some decline – in oil and gas companies' progress on limiting global warming" to 2.7 degrees Fahrenheit.[39] Likewise, California's recently filed lawsuit against major oil companies is based in part on the industry's history of false and misleading environmental marketing claims.

What is VPIC?

The role of the Vermont Pension Investment Commission (VPIC) is to make and manage investments for the Vermont State Employees' Retirement System (VSERS), Vermont State Teachers' Retirement System (VSTRS), Vermont Municipal Employees' Retirement Systems (VMERS), and the other Public Vermont Retirement Systems.[40] VPIC holds a total of about $5.6 billion in a diversified portfolio.

VPIC consists of eight voting Commissioners, a Chair elected by the voting Commissioners, and four alternate Commissioners who vote if certain voting members are unavailable. Of the voting Commissioners, one is appointed by each of the State Retirement Systems, one is the State Treasurer or designee, two are appointed by the Governor, and one each by the Vermont School Board Association and the Vermont League of Cities and Towns. VPIC was established in 2021 as the successor to the Vermont Pension Investment *Committee*, which was part of the State Treasurer's Office. As a Commission, VPIC is now an independent entity with a dedicated staff.

The money for the pension funds comes from a combination of employer and employee contributions and state tax dollars. For this reason, all Vermonters, and not just pension holders, have a stake in how the funds are invested.

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[39] Carbon Disclosure Project (CDP), *Research reveals no oil and gas companies have plans in place to phase out fossil fuels*, CDP (June 29, 2023). Available at: https://www.cdp.net/en/articles/media/research-reveals-no-oil-and-gas-companies-have-plans-in-place-to-phase-out-fossil-fuels
[40] State of Vermont, Vermont Pension Investment Commission. Website: https://vpic.vermont.gov/

When S.42 passes, will VPIC be able to continue with its current shareholder engagement activities on "Environmental, Social and Governance" (ESG) issues?

Yes, S.42 is structured to allow for *both* divestment from fossil fuel companies, *and* shareholder engagement with fossil fuel companies on ESG issues. The bill has a 2% de minimis exemption, allowing VPIC to continue to retain some direct holdings in fossil fuel companies if fund managers deem it necessary. These holdings can provide the basis for continued shareholder engagement amidst a divestment strategy.

VPIC participates in shareholder initiatives as part of a coalition of investors known as Climate Action 100+.[41] VPIC currently has about $300,000 in direct holdings in fossil fuel companies, an amount that is far less than 1% of the approximately $5.6 billion it has invested in its pension funds. The 2% de minimis exemption is more than sufficient to cover these holdings and allow VPIC to continue its work with Climate Action 100+ on shareholder initiatives.

It is unlikely, however, that shareholder initiatives on their own will persuade any fossil fuel companies to stop extracting fossil fuels from the ground, since that is their core business model and their means of making profits. As former SEC commissioner Bevis Longstreth explained, "Engagement with institutional investors like Harvard gives the fossil fuel giants the protective cover they need to stretch out the transition process to renewables for as long as they can. It legitimizes talk over action."[42]

According to published reports by Climate Action 100+, none of the top 200 fossil fuel companies has published a realistic plan to align with the Paris climate goals.[43] But if VPIC nonetheless concludes it is worthwhile to pursue shareholder initiatives with fossil fuel companies, it will be free to do so.

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[41] Climate Action 100+ Website: https://www.climateaction100.org/

[42] Former SEC commissioner Longstreth further explained, "Indeed, engagement is likely to assist Big Oil and Big Coal in postponing the day when governments limit the burning of fossil fuels. The International Energy Agency reckons that, if governments act to compel adherence to the 'carbon budget' necessary to have a chance of holding the planet to only a 3.6° F rise in temperature from pre-industrial levels, it will cause the fossil fuel industry to lose about $1 trillion a year." Bevis Longstreth, *Climate Change and Investment in Fossil Fuel Companies: The Strategy of Engagement Won't Work,* HuffPost Blog (Feb. 8, 2015). Available at: https://www.huffpost.com/entry/climate-change-and-invest_b_6295444

[43] Climate Action 100+, *Key Findings: Net Zero Company Benchmark*, Website: https://www.climateaction100.org/net-zero-company-benchmark/findings/

What are private investments and why are they exempt from the 7-year divestment plan?

Private investments consist primarily of private equity, which are investment partnerships that buy and overhaul companies before selling them for a profit. Institutional investors like VPIC can purchase shares in these privately held businesses. But these shares must be held for a term of years, typically seven or ten years, and there is a heavy penalty for early withdrawal. For this reason, private investments are exempt from the 7-year divestment plan. Instead VPIC will develop a longer-range 15-year plan for divestment from these funds if it can do so in a manner that is financially sound. This approach is based on the "Energy 2028" plan implemented by Middlebury College, which includes a 10 to 13-year divestment plan for its private equity holdings.[44]

Who are the supporters of S.42 in the Vermont Senate and House?

Senator Kesha Ram Hinsdale introduced S.42 in the Senate, and Senate Majority Leader Senator Alison Clarkson has been the champion for the bill in that chamber. The vote in the Senate was 22-8 in favor. In addition to Senators Ram Hinsdale and Clarkson, the following senators voted in favor: Baruth, Bray, Campion, Chittenden, Cummings, Gulick, Hardy, Harrison, Hashim, Kitchel, Lyons, MacDonald, Mazza, McCormack, Perchlick, Sears, Vyhovsky, Watson, White, and Wrenner.

Representative Gabriele Stebbins introduced the same bill (H.197) in the House. The bill is co-sponsored by the following representatives: Bos-Lun, Burke, Burrows, Chesnut-Tangerman, Cina, Cordes, Elder, Goldman, Hyman, Logan, McGill, Pouech, Priestley, Rice, Satcowitz, Templeman, Waters Evans. Since the Divestment bill passed the Senate first as S.42 and was sent to the House, the version now being considered in the House by the Government Operations Committee is S.42.

Which environmental organizations in Vermont have endorsed S.42?

The following environmental organizations in Vermont have endorsed S.42: Third Act Vermont; 350VT; Vermont Interfaith Power & Light; Audubon Vermont;

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[44] David Provost, Exec. V.P. Finance and Administration, Middlebury College, Testimony before VT Senate Gov. Operations Comm. (Feb. 16, 2023). Available at: https://www.youtube.com/watch?v=WAFlzRyBbp4 (at 1:16 – 1:25).

Renewable Energy Vermont; Conservation Law Foundation; Vermont Businesses for Social Responsibility; Vermont Sierra Club; Vermont Public Interest Research Group; Migrant Justice – Justicia Migrante; Vermont Climate and Health Alliance; Vermont Natural Resources Council; Vermont Conservation Voters.