University of Pittsburgh

Office of the Senior Vice Chancellor and CFO

# Consolidated Endowment Fund (CEF) Environmental, Social, Governance (ESG) Policy Statement

March 25, 2020

# INTRODUCTION & PURPOSE

The management of the University of Pittsburgh's Consolidated Endowment Fund (CEF) is guided by the "Statement of Governance, Investment Objectives and Policies" (Statement of Governance), which was approved, as amended, on June 13, 2019.

The purpose of this **"Environmental, Social, and Governance (ESG) Policy Statement"** is to clarify further the University's approach to integrating considerations of ESG factors, including related risks and value-creation opportunities, into its decision-making processes.[1] It is important to note that, before the widespread adoption of today's commonly accepted ESG terminology, many of the factors that are now labeled "ESG factors" have been an essential element of the University's investment processes.

This ESG Policy Statement includes the following sections:



[1] ESG factors may include those identified in the Appendix.

## I. Background

The CEF consists of thousands of restricted and unrestricted funds that are intended to provide stable financial support, in perpetuity, for the benefit of current and future generations of University stakeholders. As an essential source of funding for the University's teaching and research functions, the long-term strength of the CEF contributes significantly to the University's ability to impact the social, intellectual, and economic development of the Commonwealth, if not the nation and the world.[2]

To maintain the CEF's long-term purchasing power (after accounting for the eroding effects of inflation), the CEF must pursue the most attractive risk-adjusted investment returns available. To achieve this objective, the University is constantly evaluating the investment landscape, particularly as it relates to evolving risk factors and emerging opportunities for investment returns around the world.

Pennsylvania law provides critical guidance to appropriate management of the CEF. According to Pennsylvania's Prudent Investor Rule (20 Pa. C.S.A. § 7201 et seq.), "a fiduciary shall invest and manage property held in a trust as a prudent investor would, by considering the purposes, terms and other circumstances of this trust and by pursuing an overall investment strategy reasonably suited to the trust," including considerations related to "an asset's special relationship or special value, if any, to the purposes of the trust or to one or more of the beneficiaries…."

The CEF's Statement of Governance addresses "Social Responsibility" in Section XIV, providing:

> To fulfill the University's stated mission and meet the expectations of the donors who have entrusted gifts to the University, the University must manage its CEF wisely. As stated previously, the primary investment objective established for the CEF is to maximize the financial return on such assets, taking into account risk and other considerations as more specifically set forth in this Statement, in order to provide a reliable stream of meaningful income while preserving the CEF's real asset value. Accordingly, the Committee shall not apply non-financial constraints pertaining to investment holdings of the CEF unless there is a situation of such magnitude that the Board specifically directs the Committee to consider such non-financial parameters.
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> In evaluating any specific social responsibility concern as directed by the Board, the Committee may consider the gravity of the social impact, the University's need to maintain a sound financial investment policy, the potential effectiveness of the Committee's investment or voting decisions to influence positive change, and such other considerations as the Committee may deem appropriate. In no event will a recommendation be made that an investment be selected or retained solely for the purpose of encouraging or expressing approval of a

[2] University of Pittsburgh Mission Statement

company's activities or, alternatively, for the purpose of placing or leaving the University in a position to contest a company's activities.

Consistent with these responsibilities, the University recognizes that a key set of considerations appropriately included in the management of the CEF concerns ESG factors. As a result, the University's Office of Finance (OOF), led by the Chief Investment Officer (CIO), has developed ESG criteria to incorporate into its existing processes for assessing investment opportunities, both in the U.S. and around the world.

## II. Core Principles & ESG Integration

The University of Pittsburgh is an institution designed to advance its mission in perpetuity. Accordingly, the University believes it must carefully consider the long-term impact of its investments, which can have positive and negative long-term consequences. As a result, the University adopts the following investment principles:

1. The University's asset allocation reflects its view on how to maximize appropriate, long-term, risk-adjusted returns for major investment categories.
2. The University believes that ESG factors are a logical and important consideration in thoroughly assessing long-term, risk-adjusted investment returns.
3. While certain ESG factors are relevant to matters of broad asset allocation, many ESG factors are more appropriately considered at the level of specific businesses.

These principles provide an investment framework applicable for all CEF investments, regardless of asset class or sector-level application, as deemed feasible by the University's Chief Investment Officer with appropriate oversight of the Investment Committee.

Integration of ESG factors applies across all asset classes within the portfolio, including both direct and indirect investments. The OOF team/CIO will consider material ESG-related risks for each investment and inquire of its external investment managers how they identify and, if possible, mitigate such risks. **In sum, the OOF commits to fully integrating ESG factors into the University's decision-making processes, on the core belief that supporting responsible business practices also supports strong investment outcomes.**

In pursuing this integrated approach, the CIO and his/her investment staff will monitor such efforts, including with respect to the following:

- *Proxy Voting:* The University's beliefs that the investment managers that are carefully selected and employed by the University are best suited to vote the proxies of shares held in the portfolios that they manage. Therefore, responsibility for voting such proxies shall be delegated to the respective external investment managers utilized by the CEF. In the event of any regulatory or other statutory requirement that prohibits the investment manager from voting on behalf of the University, the CIO shall assume responsibility for voting such proxies.

- *Direct Engagement with Operating Companies:* Unless it is making a direct or co-investment, the University will not engage directly with underlying companies or investment holdings in the CEF, but will instead delegate this responsibility to the respective external investment managers utilized by the CEF.

## III. Roles & Responsibilities

OOF shall be responsible for developing and maintaining the ESG Policy Statement, including any amendments and/or updates. OOF shall seek input on and review of the ESG Policy Statement, including any future amendments and/or updates, from the Investment Committee to ensure that the policy does not apply any non-financial constraints to investment decision making.

As the head of OOF, the CIO shall be responsible for implementation and execution of the ESG Policy Statement, including developing a reporting framework, creating an annual ESG report, and reporting annually to the Investment Committee.

## IV. Reporting Framework

To ensure transparency and accountability to the stakeholders of the University of Pittsburgh's CEF and to demonstrate the University's leadership in ESG-related matters, the OOF CIO shall create and maintain an ESG reporting framework. This framework will serve as the basis of an annual ESG Report, the first publication of which will be generated in June 2021.

# APPENDIX

ESG factors are necessarily dynamic and will be specific to the circumstances. As such, ESG factors may be different depending upon whether a general asset class or a specific investment opportunity is being evaluated by the University.

ESG factors may include, but are not limited to, the following:

1. Environmental factors – Energy efficiency, hazardous materials management, climate change, and water/land management

2. Social factors – Data protection/privacy, human rights, labor standards, and product safety

3. Governance factors – Accounting/audit standards, bribery/corruption, business ethics, and regulatory compliance