

**Report
of the
University of Pittsburgh's
Socially Responsible Investment Committee**

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Committee Members:

CB Bhattacharya
Ronald Brand
David Denis
Emily Elliott
Young Sarah Grguras
Marguerite Kennedy
Sera Linardi
Clayton Steup

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Introduction

The University of Pittsburgh's Socially Responsible Investing (SRI) Committee was formed by Chancellor Patrick Gallagher in January 2018 to investigate and provide a foundation of facts that could be used by the University to explore socially responsible investment (SRI) strategies that may be suitable for consideration for the University's endowment. SRI investing takes into account both financial and non-financial criteria in the process of allocating investment funds and managing an investment portfolio over time. Examples of non-financial criteria include human rights issues (e.g. companies associated with the practice of apartheid), factors affecting climate change (e.g. fossil fuels), and contributions to societal ills (e.g. weapons manufacturers).

The Committee has met numerous times, conducted a literature search on relevant topics, collected data on SRI funds and their relative performance and costs, analyzed stated SRI practices of a limited set of other universities with large endowments, and solicited the views of the University of Pittsburgh's community and stakeholders through two open forums and a public online forum.

This report summarizes what the Committee has learned and what it sees as the advantages and disadvantages of incorporating SRI considerations into the investment decisions of the university's endowment portfolio.

The next section begins by identifying what the Committee believes to be the primary factors to be taken into account when evaluating whether and how SRI considerations can be considered in the management of the University's endowment. Subsequent sections summarize evidence gathered on how SRI considerations are elsewhere included into the university investment decisions, particularly endowments; the financial and non-financial results of including SRI considerations; and the views of University stakeholders, as expressed in the two open forums and the online forum conducted by the Committee in 2018. The final section summarizes the Committee's findings and recommendations.

SRI Considerations

The Committee has identified the following primary considerations that it believes should be taken into account when evaluating the extent to which SRI considerations are considered in the management of the University's endowment.

- A. *What is the potential impact of including SRI considerations on the value of the endowment corpus?*

The University's endowment is invested to generate resources that are used to implement and further the University's mission. The Endowment Investment Committee Statement of Governance, Investment Objectives, and Policies states that its primary investment objective is to maximize the financial return on its assets. To the extent that the incorporation of SRI considerations into the management of the

University's endowment affects the value of the endowment corpus, this could positively or negatively impact the University's ability to fulfill its mission.

B. *What are the SRI preferences of University stakeholders?*

Notwithstanding the primary objective of the Investment Committee to maximize financial returns, it is possible that such a strategy might conflict with the underlying values of the University and the University community. For example, certain investments might be seen as contributing to societal ills (e.g. fossil fuels and climate change, weapons manufacturers and violent crime, air pollution and respiratory health). For that reason, the University community might conclude that some investments are inconsistent with its values and prefer that they are avoided.

C. *What is the potential impact of SRI on the University's institutional advancement activities?*

To the extent that the investment decisions of the University's endowment are in conflict with the values of members of the University community, they may have negative spillovers on the University's ability to raise funds from alumni and other potential donors.

Conversely, when investment decisions of the University's endowment are transparently reflective of the values of the University community, there could be a positive impact on the University's capacity to fundraise, especially from alumni and other individual donors.

As a 2018 Nonprofit Quarterly article summarized, a \$50 million gift to North Carolina State came with two conditions: "One was that money donated must support 'need-blind, merit-based scholarships for undergraduates.' The second condition, however, referred not to the donation's use but to its management—namely, the donor insisted that the donated funds be invested in a 'socially responsible' fashion. To ensure compliance, the school decided to create a separate investment portfolio for the donated funds, which created an interesting experiment.....the socially responsible fund 'has outperformed the school's larger \$1.1 billion endowment—20 percent vs. 12 percent—in the year through June 30, 2017.'"¹

D. *What is the potential impact of SRI incorporation on the ability of the University to attract and retain top students, faculty, and staff?*

Similar to the possible impact on institutional advancement activities, the University's SRI policies for the endowment could have an impact on decisions of prospective students, faculty, and staff to become members of the University community. Likewise, such considerations could impact the decision of students, faculty, and staff to remain members of the University community.

¹ Dubb, Steve. (2018). "Donors Require Socially Responsible Investments at Universities." July 22, 2018. <https://nonprofitquarterly.org/2018/06/11/donors-require-socially-responsible-investments-at-universities>.

“Sustainability helps attract, retain and motivate top students and employees. Students are seeking schools that actively demonstrate sustainability leadership and provide them with the tools for complex decision-making and problem-solving. Sustainability, and the sense of purpose it provides, may also enhance student retention. Similarly, strong sustainability performance facilitates the recruitment of high-quality faculty and staff, who increasingly seek to work for organizations that are making a positive impact on the world. Sustainability also helps to foster organizational commitment and improve employee retention.” (AASHE 2017)²

The Princeton Review also reports that consistently since 2008, a majority (~63%) of prospective student respondents say “having information about colleges’ commitment to environmental issues would contribute ‘strongly,’ ‘very much,’ or ‘somewhat’ to their application/attendance decisions.” (Princeton Review 2018)³

E. ***To what extent is the consideration of SRI factors compatible or at odds with the University’s mission?***

As part of its mission statement, the University espouses certain goals and aspirations, summarized in Appendix I. These founding statements have been expanded in the *Plan for Pitt*, the University’s 2016 - 2020 strategic plan that adapts these tenants to a 21st century university and world.⁴

While neither the University’s mission nor strategic plan broadly embrace SRI, its campus-wide *Pitt Sustainability Plan* (finalized in January 2018) certainly does.⁵ Crossing over the three themes of stewardship, exploration, and community and culture, the *Plan* has 61 goals across 15 impact areas, including those that touch on teaching, research, innovation, energy, water, landscape, materials, engagement, partnerships, and global outreach. With an introductory letter from Chancellor Patrick Gallagher that addresses the impact of SRI on the University’s mission much better than any other singular document:

“Long-term sustainability extends beyond environmental practices. It requires deep and lasting changes that will enable future generations to thrive in a world that is environmentally responsible, socially equitable and economically robust. It is a great challenge—one that our University’s mission, which is to harness knowledge for society’s gain, perfectly positions us to tackle.”⁶

² AASHE. (2017). “Beyond the Right Thing to Do: The Value of Sustainability in Higher Education.” October 2, 2017. http://www.aashe.org/wp-content/uploads/2017/10/AASHE_2017_BeyondRightThingToDo_Brochure.pdf

³ The Princeton Review. (2018). *The Princeton Review 2018 College Hopes and Worries Survey Report*.

⁴ University of Pittsburgh. (2016). *The Plan for Pitt: Making a Difference, Academic Years 2016-2020*. 11/3/16. <https://www.pitt.edu/sites/default/files/Strategic-Plan-Presentation.pdf>

⁵ University of Pittsburgh. (2018). *Pitt Sustainability Plan*. January 2018. <https://www.sustainable.pitt.edu/meet-the-pitt-sustainability-plan/>

⁶ Ibid, Footnote 5.

As a result, failure to include SRI considerations into endowment portfolio decisions could be considered as incompatible to this aspect of the University’s mission and might send mixed signals to the internal and external community about the University’s true commitment to the full meaning of sustainability.

A single goal in the *Plan* addresses SRI -- and was achieved prior to its final publication: “Form a committee or task force to consider socially responsible investing, to be composed of faculty, staff, student, and administration representatives”. The evolution of this goal is dependent upon the results of this Committee, while also tied to the University’s external evaluation of its success, as outlined in Appendices II and III, which reference the University’s AASHE STARS certification and other national sustainability rankings, including those of Sierra Magazine’s Cool Schools Ranking and The Princeton Review’s annual Green Colleges listing.

F. ***How does the incorporation of SRI considerations fit with global trends in investment management practices, particularly among university endowments?***

We believe that it is important for the University to be seen as a leader. Therefore, it is important to consider whether the University’s investment policies, particularly with respect to SRI considerations are out-of-step with the practice at other endowments, and if so, whether this is due to the University taking a leadership position in practice or due to falling behind accepted practice.

SRI Practice: Background

In this section, we provide a brief overview of SRI practice. We first describe how, in general, SRI considerations can be taken into account in the management of an investment portfolio. We then describe in more detail the issues surrounding the practice of incorporating SRI into the management of university endowment portfolios. Finally, we summarize evidence on how university endowments incorporate SRI considerations into the management of their portfolios.

A. General Background

SRI criteria can be incorporated into the management of a portfolio in one of three (not mutually exclusive) ways. Under the first, typically labeled ‘negative screening,’ the investor purposefully excludes individual investments on the basis of undesirable characteristics. As an example, an institution might elect to exclude from its portfolio any companies associated with the production of fossil fuels because of their presumed contribution to climate change. Under the second, labeled ‘positive screening,’ the investor purposefully tilts the portfolio towards those investments that meet predetermined criteria. For example, an institution might increase portfolio weights on companies or funds that receive higher ratings on environmental, social, and governance (ESG) criteria. Third, an investor might seek to have greater influence on companies through the corporate governance process. For example, an institution might sponsor shareholder resolutions advocating improved sustainability practices within a given company.

B. Trends in SRI Investing Among U.S. Institutional Investors and Money Managers

The inclusion of SRI considerations into investment portfolios has grown steadily over the past two decades. According to the U.S. SIF, U.S. domiciled assets under management using SRI strategies grew from \$639 billion in 1995, the first year it was measured, to \$12.0 trillion in 2018, a compound annual growth rate of 13.6%.⁷ Moreover, this growth rate has increased in recent years. Since 2016, assets under management using SRI strategies have grown by 38%.

Managers of \$11.6 trillion of U.S. financial assets incorporate SRI considerations by applying various environmental, social, and governance (ESG) screens in their portfolio selection process. A much smaller amount of assets under management (\$1.8 billion) incorporate SRI considerations by filing shareholder resolutions on various ESG issues. Most of the investors who file or co-file such resolutions (\$1.4 of the \$1.8 billion) also apply ESG screens in their portfolio selection process.

Exhibit A displays the SRI issues of greatest importance to money managers and institutional investors. For money managers, the top issue in 2018 was climate change, with this issue incorporated into the management of funds with \$3 trillion of assets under management. This is followed by tobacco, conflict risk, human rights, and anti-corruption. The category with the largest growth since 2016 is tobacco, with a growth of 432%.

For institutional investors, the top issue in 2018 is conflict risk, with this issue incorporated into the management of funds with \$3 trillion of assets. This is followed by tobacco, climate change, board of directors' issues, and executive pay. As was the case for money managers, the category with the largest growth since 2016 is tobacco, with a growth rate of 121%.

⁷ For details of the survey and the data being cited in this section, please see 'Report on Sustainable, Responsible, and Impact Investing Trends 2018,' U.S. SIF Foundation (<https://www.ussif.org/pubs>).

SRI Issue	Money Managers		Institutional Investors	
	SRI \$ (trillion)	% growth from 2016	SRI \$ (trillion)	% growth from 2016
Climate change	\$3.0	110%	\$2.2	4%
Tobacco	\$2.9	432%	\$2.6	121%
Conflict risk	\$2.3	47%	\$3.0	8%
Human rights	\$2.2	171%		
Anti-corruption	\$2.2	206%		
Board issues			\$1.7	39%
Executive pay			\$1.7	41%

Exhibit A - Top SRI / ESG criteria for money managers and institutional investors in 2018 (Source: U.S. SIF Foundation)

The bottom line is that, if anything, SRI considerations have become a far more important component of the investment landscape, indicating strong demand for such investment vehicles from investors. There are a broad range of issues addressed by screening investments on a variety of environmental, social, and governance criteria. Thus, investors have considerable options should they wish to include SRI considerations into their portfolio choices. All indications are that these options will only grow over time.

C. Do University Endowments Incorporate SRI Practices into Investment Policy?

C.1 Legal Issues

The Investment Committee of the University's endowment has fiduciary responsibility for the investment decisions of the University's endowment. This raises the

question of whether the investment committee can fulfill its fiduciary obligations while incorporating SRI considerations into the management of the endowment.

Those who manage university endowment funds are subject to basic fiduciary responsibilities. These responsibilities are governed in 49 states, the District of Columbia, and the U.S. Virgin Islands, by the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which was promulgated by the National Conference of Commissioners on Uniform State Laws. Interestingly, Pennsylvania is the only state which has not enacted UPMIFA. Nonetheless, the provisions of that law, particularly in light of its wide adoption, are instructive.

The provision of UPMIFA that is most relevant to the question of socially responsible investment policies is Section 3, which reads, in part, as follows:

SECTION 3. STANDARD OF CONDUCT IN MANAGING AND INVESTING INSTITUTIONAL FUND

.....

(e) Except as otherwise provided by a gift instrument, the following rules apply:

(1) In managing and investing an institutional fund, the following factors, if relevant, must be considered:

(A) general economic conditions;

(B) the possible effect of inflation or deflation;

(C) the expected tax consequences, if any, of investment decisions or strategies;

(D) the role that each investment or course of action plays within the overall investment portfolio of the fund;

(E) the expected total return from income and the appreciation of investments;

(F) other resources of the institution;

(G) the needs of the institution and the fund to make distributions and to preserve capital; and

(H) an asset's special relationship or special value, if any, to the charitable purposes of the institution.

While UPMIFA is not the statutory law in Pennsylvania, its broad adoption suggests that it incorporates the modern standard on the question of the legal ability of university endowment fund managers to take into account SRI matters in making investment decisions. This is ultimately a matter for which a legal opinion should be sought from the University's Office of General Counsel.

For our purposes, it is useful to consider UPMIFA as providing a widely accepted standard that is binding almost everywhere in the United States other than Pennsylvania. Notable is Section 3(e)(1)(H), which expressly requires that institutional investment managers "must" consider "an asset's special relationship or special value, if any, to the charitable purposes of the institution." This would appear to make a university mission statement (and related institutional statements of purpose) important to investment

decisions. Notably, “expected total return” is only one of eight factors that must be considered under UPMIFA.

Under UPMIFA, it would appear that, at a minimum, it is legally allowed to consider SRI factors in making investment decisions regarding endowment funds. Moreover, the language of Section 3 suggests that, to the extent that university mission documents make social responsibility a purpose of the University’s functions, these would be matters that university endowment fund managers “must” take into account. As noted earlier, the Committee is not in a position to render legal opinions, and this is ultimately a matter for the University’s Office of General Counsel.

The Committee has assumed that, at worst, there is no Pennsylvania law so contrary to UPMIFA that it would prohibit taking socially responsible aspects of the University’s mission into account in making endowment investment decisions. Pennsylvania law retains the Uniform Management of Institutional Funds Act (UMIFA), which the 2006 promulgation of UPMIFA was designed to replace. UMIFA has been superseded by UPMIFA in all states except Pennsylvania. While the Committee is aware of nothing in UMIFA that would prevent SRI factors from being considered in the investment of the University’s endowment, this, again, is a matter for which a legal opinion is required. That is beyond the scope of the Committee’s charge, and this discussion should not be taken as providing either a legal opinion or a final conclusion on matters of Pennsylvania law relevant to the issue.

It is worth noting, however, that the Investment Committee has approved a Statement of Governance, Investment Objectives, and Policies (the “Statement of Governance”) for the University’s endowment that does acknowledge the possibility of considering SRI considerations in the management of the portfolio. The following contains the relevant section on Social Responsibility from the Statement of Governance.⁸

“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.

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 Committees investment or voting decisions to influence positive change, and such other considerations as the Committee may deem

⁸ CEF refers to ‘consolidated endowment fund.’

appropriate. In no event will a recommendation be made that an investment will be selected or retained solely for the purpose of encouraging or expressing approval of a company's activities, or alternatively for the purpose of placing or leaving the University in a position to contest a company's activities."

C.2. Survey evidence

In one of the few systematic studies of the practices of university endowments, Smith and Smith (2016) draw upon data from the National Association of College and University Business Officers (NACUBO) Commonfund Study of Endowments that was collected for the years 2009 and 2010.⁹ This data consists of survey responses on SRI practices from 844 academic institutions in 2009 and 851 academic institutions in 2010. The surveys ask a series of questions about SRI investing, including (among others) whether the institution used any social investing screens, whether such screens applied to all or part of the endowment portfolio, on which issues were investments screened (e.g. abortion/birth control, environmental/green, tobacco/alcohol/firearms, etc.), what (if any) steps were taken with respect to commingled funds (e.g., not invest in commingled funds, only invest in funds that provide portfolio transparency, screen the investments of the funds, etc.), whether (and how) sustainability influences the investments of the fund, whether the fund is willing to accept underperformance in exchange for meeting SRI goals, and whether the endowment voted its proxies in a manner consistent with its SRI screening criteria.

The authors report that approximately 25% of responding institutions impose some sort of SRI screen on their investment decisions. This rate differs significantly between universities characterized as 'public,' 'independent,' and 'church-affiliated.' Among public universities, 12% impose SRI screens, whereas this rate is significantly higher among independent universities (24%), and highest among church-affiliated universities (37%).

The most common screens also differ somewhat across type of institution. Among public institutions, 9% impose negative screens on the basis of some ESG consideration and 9% impose negative screens on 'sin stocks' (alcohol, firearms, etc.). The comparable percentages are 23% and 16% for independent institutions, and 52% and 85% for church-affiliated institutions. Public and independent institutions rarely impose reproduction-related (abortion, birth control) screens, but this is common for church-affiliated institutions (44%). Finally, screens based on sustainability are used in 4% of public institutions, 9% of independent institutions, and 14% of church-affiliated institutions.

As noted above, SRI considerations can also be incorporated through the governance process, specifically the proxy voting process. According to the Smith and Smith (2016) survey, 4% of public universities actively vote on SRI issues, whereas this rate is 13% for independent institutions, and 21% for church-affiliated institutions.

⁹ "Socially Responsible Investing by Universities and Colleges," by Janet Kiholm Smith and Richard L. Smith, *Financial Management* (Winter, 2016), 877-922.

With respect to being willing to sacrifice return on investment (ROI) for SRI considerations, only 2% of public institutions and 3% of independent institutions are willing to do so. This rate is significantly higher among church-affiliated institutions (15%). Six percent of public institutions state that they impose negative screens on the basis of SRI considerations, but are unwilling to sacrifice ROI. This rate is 17% for independent institutions and 15% for church-affiliated institutions.

The main takeaways from this analysis are as follows. (1) There is substantial variation in the degree to which SRI considerations are taken into account in university portfolios and the specific issues on which the institutions focus. (2) The much higher rates of SRI activism for church-affiliated institutions suggest that incorporation of SRI considerations is linked with the specific mission of the University and the degree to which the University community has a more defined set of shared values. (3) Few institutions are willing to trade off lower ROI for incorporation of SRI considerations, though that rate is significantly higher among church-affiliated institutions.

One caveat with this analysis is that, due to changes in reporting in the NACUBO, the Smith and Smith (2016) is limited to data regarding practices in 2009 and 2010. As noted above, the incorporation of SRI considerations by institutional investors and money managers has, if anything, grown over time. Thus, the data in the Smith and Smith (2016) study may not accurately reflect SRI practices of university endowments today. We therefore supplement the Smith and Smith (2016) analysis with data that we have collected on SRI practices at Top-15 universities (based on endowment size) and report on this analysis in Section C.3.

C.3. Evidence from 15 Largest University Endowments

To supplement the Smith and Smith (2016) analysis, we searched university websites and other sources to identify how (if at all) other major university endowments incorporated SRI considerations into their endowment portfolio decisions. Because of the high cost of collecting this data, we limited this analysis to the universities with the 15 largest endowments. Although endowments that are significantly larger than that of the University of Pittsburgh might have greater flexibility in their portfolio allocation decisions, we believe that their approach to the incorporation of SRI considerations provides a useful snapshot of the framework that other university endowments use to consider the incorporation of SRI factors and how they implement decisions related to SRI. Appendix IV contains the details of what each university has disclosed about how SRI considerations impact the University endowment portfolio decisions. We summarize the main takeaways below.

First, consistent with a growing interest in SRI, it is noteworthy that thirteen of the fifteen largest endowments explicitly discuss SRI/ESG considerations in their disclosures of endowment policies. (The two exceptions are the University of Texas, who explicitly points to the contribution of oil investments to the endowment's value and Texas A&M.) The primary SRI issue currently is clearly climate change, with virtually all of the universities mentioning this issue as one that is worthy of consideration.

Second, with respect to a framework, many universities have adopted a structure in which an advisory committee has been formed to provide input to the endowment on SRI considerations. (See the appendix entries for Stanford, Yale, Princeton, Michigan, Columbia, and Duke.) These advisory committees are generally a mix of faculty, staff, students, and alumni. In the case of the University of Michigan, ad hoc advisory committees are formed whenever a particular social issue rises to a critical level of importance. These necessary conditions for such a committee's formation are as follows:

1. The concern to be explored must express the broadly and consistently held position of the campus community over time;
2. There must be reason to believe that the behavior or action in question may be antithetical to the core mission and values of the University.
3. There must be reason to believe that the organization, industry or entity to be singled out may be uniquely responsible for the problems identified.

Third, although most of the universities discuss SRI considerations, there is a broad range of how (if at all) such considerations influence endowment portfolio decisions. Some endowments employ positive screens in which the performance of the potential fund investment on ESG or SRI factors influences the magnitude of the fund's investment. (See the appendix entries for Harvard, Northwestern, University of California System, and University of Virginia.) Others (see, for example the appendix entries for Penn and Notre Dame) have explicitly employed negative screens in which specific companies are excluded from the endowment. For example, the guidelines at Notre Dame "provide a no-buy list of some 250 companies whose products, policies or charitable corporate giving support abortion, embryonic stem-cell research, contraceptives, or pornography, or companies involved in arms manufacturing, discrimination or "sweatshop" labor practices."

Among potential negative screens, fossil fuel divestment is the most common mentioned, but has elicited a variety of responses. Many universities point to the issue as being extremely important to their stakeholders and have pledged to give the issue strong consideration. Several of the universities present strong arguments on both sides of the divestment issue (See the appendix entries for Yale, Stanford, Virginia, Columbia, and Notre Dame.) Two of the universities (Yale and Virginia) explicitly reject fossil fuel divestment in favor of other means of addressing the important issue of climate change that they believe will be more effective.

Finally, some endowments explicitly consider SRI factors when voting on matters raised by corporations held in the endowment portfolio. (See the appendix entries for Harvard, Duke, and Columbia). Because the University of Pittsburgh typically does not make direct investments in individual companies, this type of SRI consideration will be irrelevant.

SRI Practice: Evidence

Because the University of Pittsburgh endowment does not invest directly in individual stocks, but rather, through institutional funds, a primary means of incorporating SRI considerations into the University endowment would be through an allocation of endowment assets to mutual funds that directly incorporate SRI considerations into their fund allocation process. As noted in Smith and Smith (2015), however, standard portfolio theory predicts that restricting a portfolio by either eliminating some investments from the portfolio (e.g., through divestment, or overweighting some investments (e.g., by tilting the portfolio towards SRI funds) is likely to come at some cost, either through reduced diversification, which alters the portfolio's risk-return profile, or through additional transactions costs associated with implementing the SRI strategy.¹⁰ An evaluation of a specific SRI strategy, therefore, entails a careful consideration of these costs relative to the benefits of the strategy.

To gather evidence on the possible financial consequences of implementing SRI practices, the committee collected and analyzed data from the U.S. SIF Survey (<https://charts.ussif.org/mfpc/>) on the returns and costs of mutual funds that are specifically targeted towards SRI considerations (SRI Funds). Specifically, the US SIF tracks financial performance, costs, screens, and voting records for all sustainable, responsible, and impact mutual funds and exchange-traded funds (ETFs) offered by US SIF institutional member firms. As of 2018, this data comprised 203 different SRI funds across a broad range of asset classes, including funds that include companies of all sizes (AllCap), funds balanced across companies of different sizes (Balanced), funds focused on fixed income securities (Bond), funds focused on larger companies (LargeCap), funds focused on smaller and mid-size (Md-SmCap), funds focused on specific industry sectors (Specialty), and funds focused on international companies (Global).

To evaluate the performance and costs of the SRI funds relative to comparable funds without an SRI focus, we identified an index fund or ETF with the same investment focus. Most of the SRI funds self-identified a relevant benchmark (e.g. S&P 500 index or Barclays US Aggregate Bond Index). For each of these benchmarks, we identified an index fund or ETF that tracks that same benchmark. For example, for an SRI fund that tracks the S&P 500 index, we use Vanguard's S&P 500 Index Fund as the relevant comparison fund.

Figures 1-4 exhibit 5-year average returns, 10-year average returns, average expense ratios, and average management fees for SRI funds and their relevant benchmark index funds. The data in Figures 1 and 2, depict mixed evidence with respect to average returns. As shown in Figure 1, 5-year average returns of the SRI funds are generally below those of their benchmark index funds. However, the opposite is true for 10-year average returns in some of the asset classes (see Figure 2). We note, however, that because these returns are not adjusted for risk, we cannot draw strong inferences about risk-adjusted performance of SRI funds relative to their benchmark index funds.

¹⁰ "Socially Responsible Investing by Universities and Colleges," by Janet Kiholm Smith and Richard L. Smith, *Financial Management* (Winter, 2016), 877-922.

Previous academic studies summarized in the Smith and Smith (2016) study also report mixed evidence on the performance consequences of SRI investing. In the most general study, Geczy, Stambaugh, and Levin (2005) find that imposing an SRI constraint results in a reduction in risk-adjusted performance of a just few basis points per month. (100 basis points is equal to 1%.) Other studies report larger impacts. For example, Fischel (2015) estimates that a fossil fuel divestment strategy would result in a reduction in performance of approximately 70 basis points per year. Similarly, Hong and Kacperczyk (2009) find that a strategy of omitting “sin stocks” (alcohol, tobacco, gambling) from a portfolio would cause a fund to forego annualized abnormal returns on these stocks of approximately 3%. However, consistent with SRI factors having a positive influence on portfolio returns, Edmans (2011) finds positive returns from investing in companies with high employee satisfaction.

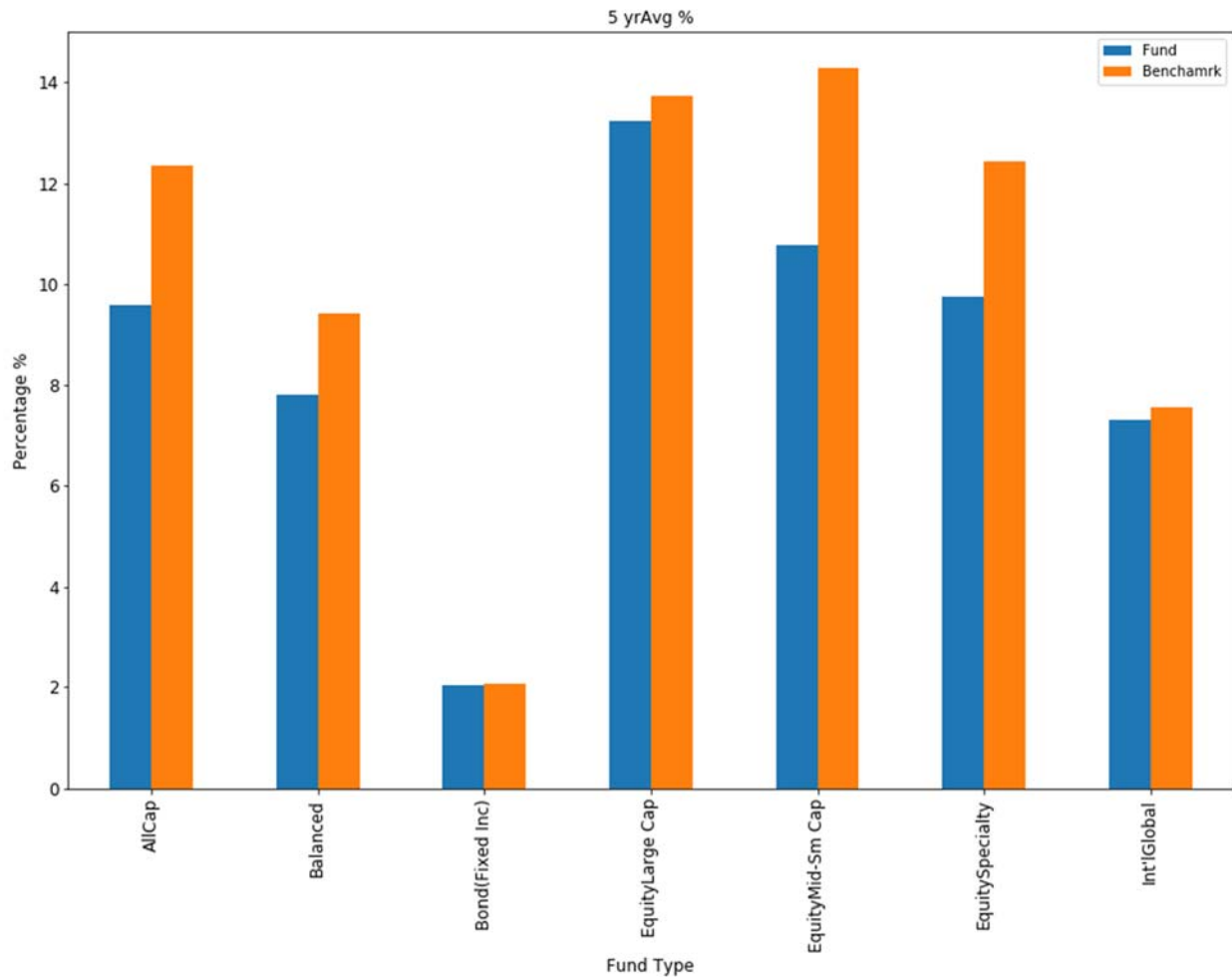


Figure 1: Average annual returns over previous five years of SRI funds by category (blue bars) as compared with those of benchmark index funds in the same category.

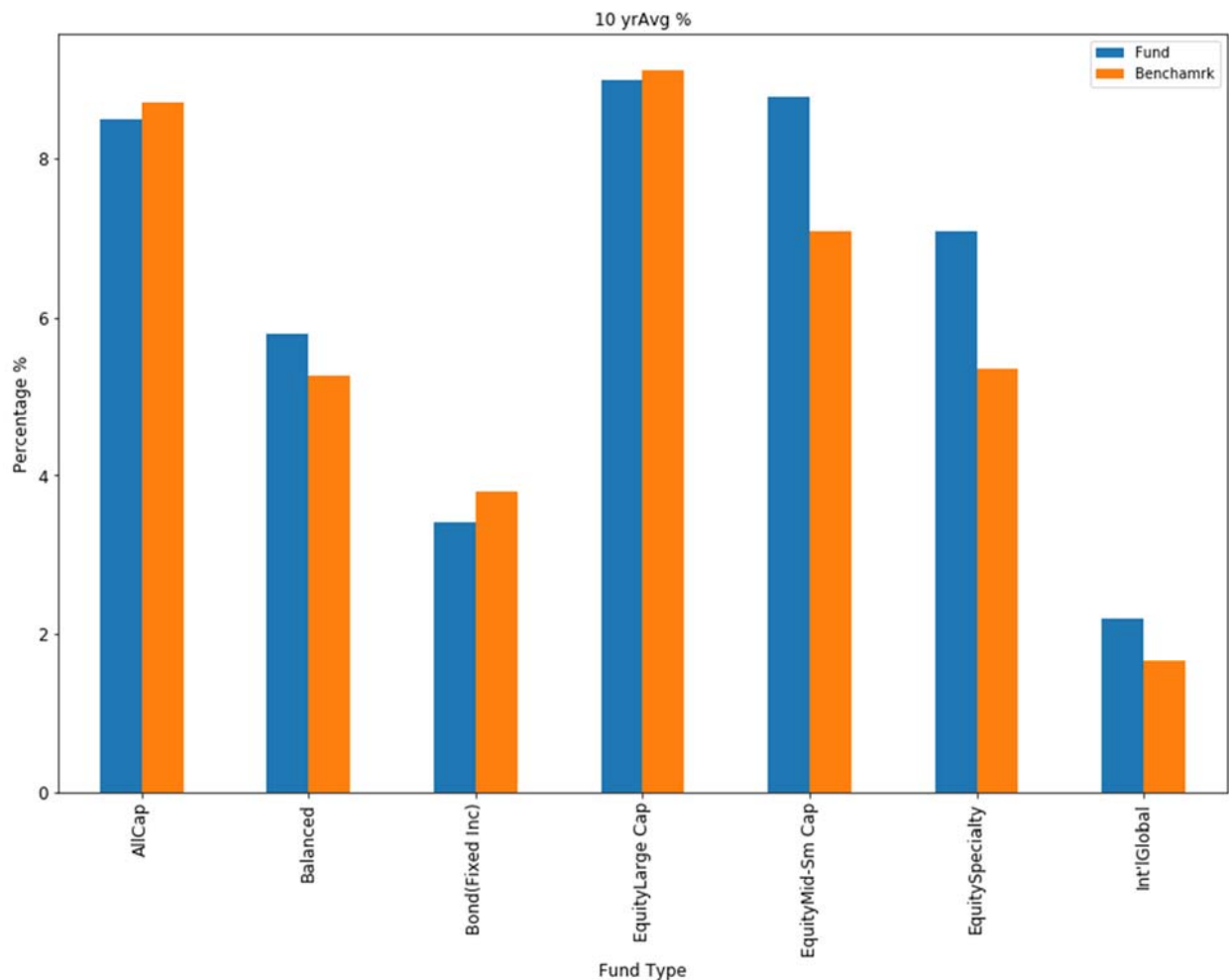


Figure 2: Average annual returns over previous ten years of SRI funds by category (blue bars) as compared with those of benchmark index funds in the same category.

With respect to costs, our analysis implies that investments in SRI funds are more costly than investments in comparable index funds or ETFs. As shown in Figure 3, across all asset classes, expense ratios of SRI funds are substantially higher than those of index and ETF funds in the same asset class. For example, in the broadest “AllCap” category, expense ratios average 1.4% for SRI funds, as compared with 0.1% for their benchmark index funds and ETFs. The differences aren’t quite as large in other asset classes, but in all classes, expense ratios of SRI funds are many times those of their benchmark index and ETF funds.

Similarly, as depicted in Figure 4, management fees of SRI funds are significantly higher than those of their benchmark funds. Again taking the “AllCap” category as an example, management fees in this asset class average 0.9% for SRI funds, as compared to 0.1% for the benchmark index and ETF funds. Management fees are higher for SRI funds than for the benchmark funds in all asset classes.

Taken together, the data on expense ratios and management fees imply that a strategy of incorporating SRI considerations in the University endowment through investment in funds targeted towards SRI considerations is likely to result in an increase in costs that reduces net portfolio returns by 1-2% annually. Incorporating SRI considerations can thus have an important impact on the value of the endowment corpus through its impact on returns net of costs. This expected cost of incorporating SRI considerations would have to be weighed against the expected benefits of incorporating SRI considerations into the University’s endowment portfolio.

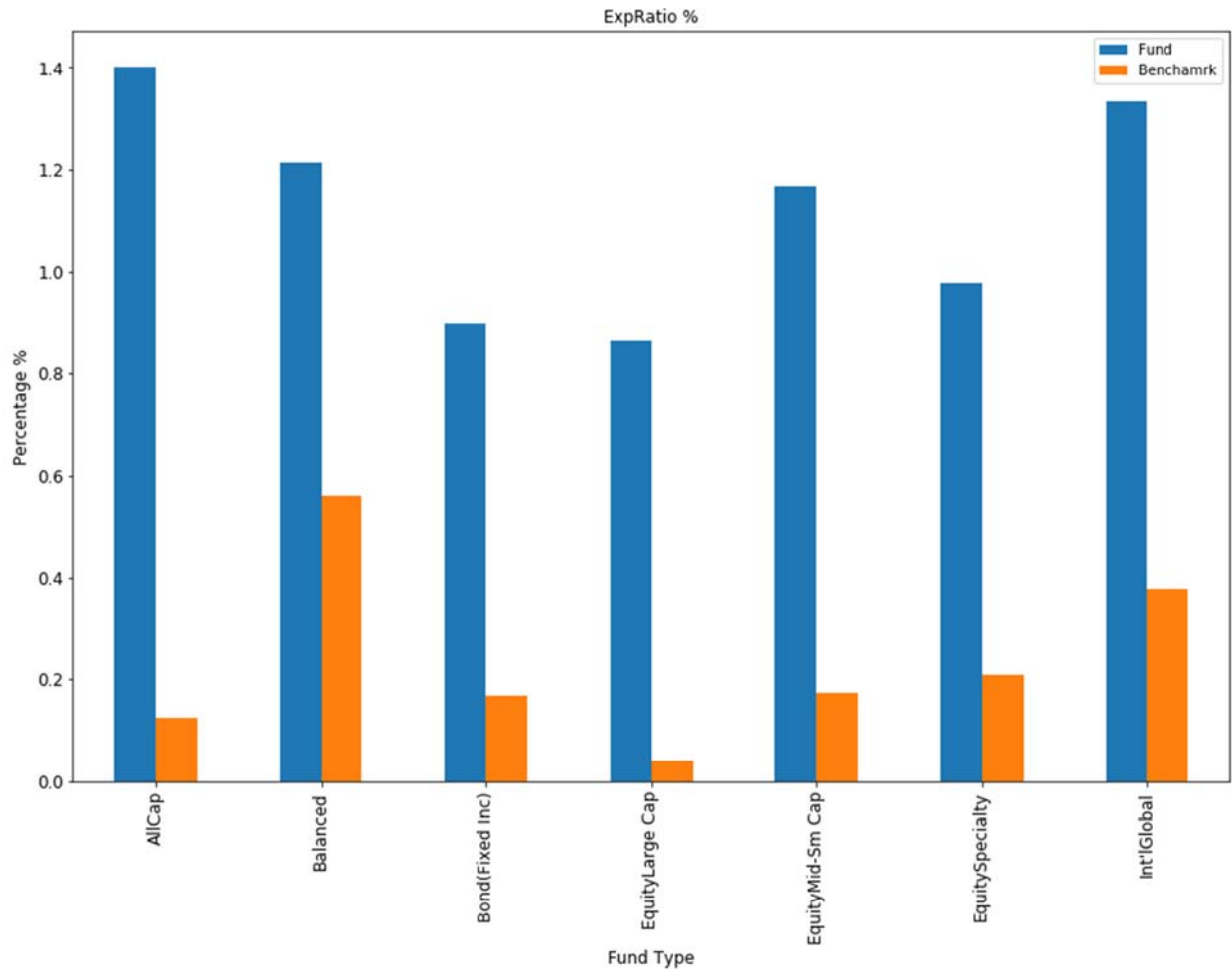


Figure 3. Average expense ratio of SRI funds by category (blue bars) as compared with those of benchmark index funds in the same category.

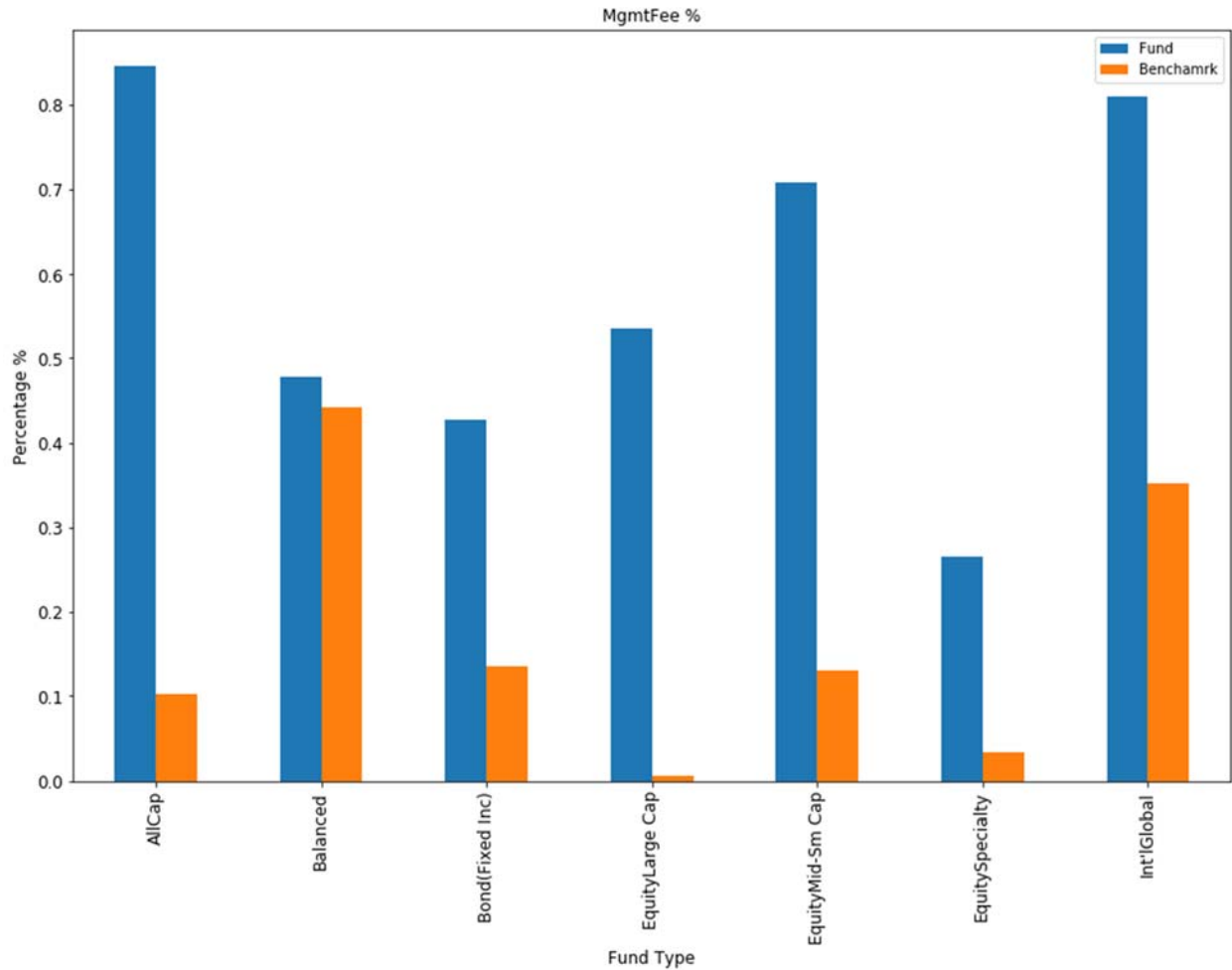


Figure 4. Average management fees of SRI funds by category (blue bars) as compared with those of benchmark index funds in the same category.

The Views of the University Community

In an attempt to understand the views of the broad University community, the committee hosted two open, public forums as well as an online forum. In this section, we provide a summary of the views expressed by the participants in these forums.

Forum Structure

The two public forums were held on Wednesday November 14, 2018, from 6:30-8:00 p.m. and Monday, November 19, 2018, from 12:00-1:30 p.m., both in the William Pitt Union’s Kurtzman Room. These meeting times were selected to allow potential participants with different work and class schedules to attend the session that best met their individual schedules. The University community was given one week prior notice for the

forum, with marketing distributed via email, word of mouth, and Read Green. The in-person audience was provided three questions to address and an open microphone to express their thoughts.

The three questions were as follows:

1. What factors do you think should be taken into account when managing the University endowment?
2. Should these factors include anything regarding socially responsible investing?
3. If so, what does SRI mean to you?

On November 14, 2018, 30 attendees elected to express their views. These participants were primarily students (23 participants), but also consisted of community members/alumni (5 participants), and faculty/staff (2 participants). The forum on November 19 had twenty-eight total participants, of which fourteen were students, ten were faculty/staff, and five were community members or alumni. Twenty-nine individuals responded to the questions through the online forum.

Summary of Views Expressed

For the most part, the open forum participants did not directly address the questions posed by the committee. Most of the views expressed at these forums focused on the issue of climate change -- and specifically fossil fuel divestment. In the November 14 forum, 27 of 30 participants asked for fossil fuel divestment. One person advocated against fossil fuel divestment and advocated for most financial gain. Other issues mentioned included more investment in diversity, inclusion and transparency, and divestment from private prisons and guns.

The November 19 forum comments were along the same lines, with 26 out of 28 asking for fossil fuel divestment, citing concerns about an impending climate change disaster, air and water quality, and the immediate impact of each on the community here in Pittsburgh. Some also expressed the need for more University transparency in its investment policies and procedures.¹¹

The respondents to the online forum more directly responded to the questions posed by the committee. Twenty-eight of the twenty-nine respondents thought that SRI factors should be taken into account in the management of the University's endowment. Of these twenty-eight, the overwhelming majority cited climate change and fossil fuel divestment as the SRI considerations that are most important. Other SRI factors mentioned included human rights, factors contributing to social ills e.g., tobacco, alcohol and firearms), private prisons, and social/economic justice. The one dissenter cited the need for proper financial

¹¹ Links to the audio content of the two open forums can be found at:

<https://tinyurl.com/11142018SRI>
<https://tinyurl.com/11192018SRI1>
<https://tinyurl.com/11192018SRI2>

stewardship of the endowment that balances risk and return. This respondent suggested that applying social criteria to endowment investments would diminish investment returns and, therefore, jeopardize the University budget.

Summary: University of Pittsburgh 2018-19 Stakeholder Activities

Over the course of the past year, a number of different University stakeholder groups have undertaken activities or expressed views related to SRI. We provide a listing and a brief summary of those activities here to provide further indication of the importance of SRI to the University community.

Socially Responsible Student-Driven Investment Portfolio at the University of Pittsburgh's School of Business's Berg Center for Ethics and Leadership

<https://cba.pitt.edu/socially-responsible-investment-portfolio/>

<http://pittsri.org/portfolio.html>

<https://www.business.pitt.edu/berg/impact/socially-responsible-investment-club>

Fall 2018 letter signed by 19 faculty members stating:

“The Pitt endowment is an important instrument to help provide reliable funding for student financial support, endowed research chairs, and future capital projects. Its investments are very broad, but they include, directly or indirectly through institutional funds, a range of company stocks whose primary business is in fossil fuels. Climate scientists have been pointing out for many years that the recent global warming trend is primarily attributable to CO₂ emissions from burning or processing fossil fuels. To avoid the expected devastating [consequences of global warming](#), it is imperative to reduce the reliance of our civilization on fossil fuels. Achieving this goal requires a multi-pronged approach, and fossil fuel divestment is one such strategy. Investment in fossil fuel company stocks provides the necessary capital for this industry to operate.

Therefore, the following members of the Pitt faculty call on our University to join more than 100 other institutions of higher learning and divest the Pitt endowment from fossil fuel investments. In doing so, Pitt would make a public ethical statement commensurate with its values and position itself as a leader for the future.”

<https://sites.google.com/view/pittfacultydivest/>

Update on current University atmosphere regarding the fossil fuel divestment campaign

Student Written Op-ed <https://pittnews.com/article/138026/opinions/op-ed-University-must-follow-through-with-divestment/>

Published in the student run newspaper, *The Pitt News*, this Op-ed expresses strong support for divestment.

Student Referendum vote [https://pittnews.com/article/145484/news/peterson-wins-executive-
vp/?fbclid=IwAR1_mBpDJrUPLHDYDhIIfznbz143v8MBVtf2hAUlw7_wyePeg
ov5gN8m8CU#photo](https://pittnews.com/article/145484/news/peterson-wins-executive-
vp/?fbclid=IwAR1_mBpDJrUPLHDYDhIIfznbz143v8MBVtf2hAUlw7_wyePeg
ov5gN8m8CU#photo)

On Tuesday March 5, SGB held a referendum vote for students to express opinions on divestment. 2,401 students voted (about 12% of student population) and of that, 2184 voted to support divestment, which is 91% of the vote.

The Fossil Free Pitt Coalition activities
<https://pittnews.com/article/117448/featured/fossil-free-pitt-coalition-urges-board-trustees-divest/tinyurl.com/ffpc-petition>

The student group that started this conversation has activities ranging from direct actions, to coalitions of students. See links for more information, and Facebook page.

The following student petition was signed by 4,588 respondents.

“I, the undersigned, do not condone the investment of the University of Pittsburgh’s endowment in industries that will lead to climate disaster. We call on the University of Pittsburgh to

1. Immediately freeze any new investment in the largest 200 fossil fuel companies (Carbon Underground 200)
2. Divest all direct holdings from the Carbon Underground 200 within 3 years
3. Divest all direct and commingled funds from the fossil fuel industry within 5 years
4. Institutionalize a collaborative process between students, faculty, the administration, and the investment committee to address future divestment proposals, and work to make sure the endowment is invested in a socially and economically responsible manner

A pledge to withhold donations to Pitt if the University continues to invest in fossil fuels has received 27 signatories to date.

https://docs.google.com/forms/d/e/1FAIpQLSfHVj4rgnlWjXXMcmwZrB4LKKL3DaW9Sd0sDdlmaQrXJSGCoA/viewform?fbclid=IwAR3NGK9Yp_ew0owE2FbBEbaniGiaiYU5whL9I4ZX2haS9DnOcC80xpEmcZ8

Conclusions/Recommendations

The Committee believes that a compelling case can be made for the inclusion of SRI considerations into the portfolio allocation decisions of the University’s endowment. We believe that such considerations are on solid legal ground; consistent with the Investment Committee’s Statement of Governance, Investment Objectives, and Policies; consistent with the University’s stated mission; and consistent with the views expressed by the participants of the open forums

conducted by the committee, particularly on the issue of fossil fuel divestment. Moreover, incorporation of SRI considerations might even positively influence enrollments, institutional advancement efforts, and the recruiting faculty and staff, while neglecting such considerations could negatively affect future University fundraising activities. Finally, the incorporation of SRI considerations could potentially mark Pitt as a leader on issues such as sustainability and social justice.

Nonetheless, the Committee notes that incorporating such considerations is likely to entail important tradeoffs. Because incorporating SRI considerations through SRI funds would involve higher management fees and expense ratios than are currently paid by the endowment, this can reduce net returns on the University's endowment portfolio. All else equal, reduced returns can impact the University's operating budget and, potentially, constrain its ability to pursue its mission.

Therefore, we recommend that the pursuit of socially responsible investment strategies should involve a careful consideration of

- (i) The importance of the social issue to the University community,
- (ii) The impact of the University's investment policy decision on the social issue, and
- (iii) The impact of the University's investment policy decision on the value of the endowment corpus.

APPENDIX I: University of Pittsburgh Mission¹²

The University of Pittsburgh, founded in 1787, is one of the oldest institutions of higher education in the United States. As one of the nation's distinguished comprehensive universities, the resources of the University constitute an invaluable asset for the intellectual, economic, and social enrichment of Pennsylvania, while the international prestige of the University enhances the image of Pennsylvania throughout the world.

The University's mission is to:

- Provide high-quality undergraduate programs in the arts and sciences and professional fields, with emphasis upon those of special benefit to the citizens of Pennsylvania;
- Offer superior graduate programs in the arts and sciences and the professions that respond to the needs of Pennsylvania, as well as to the broader needs of the nation and the world;
- Engage in research, artistic, and scholarly activities that advance learning through the extension of the frontiers of knowledge and creative endeavor;
- Cooperate with industrial and governmental institutions to transfer knowledge in science, technology, and health care;
- Offer continuing education programs adapted to the personal enrichment, professional upgrading, and career advancement interests and needs of adult Pennsylvanians; and
- Make available to local communities and public agencies the expertise of the University in ways that are consistent with the primary teaching and research functions and contribute to social, intellectual, and economic development in the Commonwealth, the nation, and the world.

The trustees, faculty, staff, students, and administration of the University are dedicated to accomplishing this mission, to which they pledge their individual and collective efforts, determined that the University shall continue to be counted among the prominent institutions of higher education throughout the world.

¹² University of Pittsburgh. (2019). 2019 Fact Book. <https://pre.ir.pitt.edu/wp-content/uploads/2019/01/Fact-Book-2019-4.pdf>

APPENDIX II: AASHE STARS v2.2

Of the University of Pittsburgh’s local, national, and international sustainability affiliations, our membership with the Association for Advancement of Sustainability in Higher Education (AASHE) is most significant. AASHE’s Sustainability Tracking, Assessment & Rating System (STARS) system is the predominant higher education performance comparison framework. Self-reported, yet transparent, AASHE STARS is currently operating under version 2.1.¹³ AASHE STARS version 2.2 is in early release format.¹⁴ The “Investment & Finance” credits of this assessment mechanism (to which the University publicly reports every three years at minimum) are below.

“Investment & Finance: This subcategory seeks to recognize institutions that make investment decisions that promote sustainability. Collectively, colleges and universities invest hundreds of billions of dollars. Like other decisions that institutions make, these investments have impacts that are both local and global in scope. Institutions with transparent and democratic investment processes promote accountability and engagement by the campus and community. By using the tools of sustainable investing, institutions can improve the long-term health of their endowments, encourage better corporate behavior, support innovation in sustainable products and services, support sustainability in their community, and help build a more just and sustainable financial system. Throughout this subcategory, the term ‘sustainable investment’ is inclusive of socially responsible, environmentally responsible, ethical, impact, and mission-related investment.”

PA 9: Committee on Investor Responsibility - 2 points

“This credit recognizes institutions with an established and active committee on investor responsibility (CIR) with multi-stakeholder representation. Establishing a CIR provides a structure for fostering dialogue on investment decisions, and can help campuses make responsible investment decisions that promote sustainability. Drawing CIR membership from multiple sectors of the campus community provides educational experiences for involved students, employees, and alumni. In addition, a multi-stakeholder CIR is consistent with the sustainability principle of shared governance.

Full criteria in STARS v2.2 Technical Manual¹⁵

University of Pittsburgh STARS Score - 1.5 of 2 points due to lack of staff representation on SRI Committee.¹⁶

¹³ AASHE. (2017). STARS Technical Manual, Version 2.1, Administrative Update Three. July 2017. <https://www.aashe.org/wp-content/uploads/2017/07/STARS-2.1-Technical-Manual-Administrative-Update-Three.pdf>

¹⁴ AASHE. (2019). STARS Technical Manual, Version 2.2. January 2019. Advance Copy. <https://drive.google.com/file/d/1tnsstCz3P4o6muGdEA9Vok1OweQxfUIJ/view>

¹⁵ Ibid, Footnote 13.

¹⁶ University of Pittsburgh. (2018). PA-8: Committee on Investor Responsibility, AASHE STARS v2.1. <https://reports.aashe.org/institutions/university-of-pittsburgh-pa/report/2018-02-28/PA/investment-finance/PA-8>. March 2019.

PA 10: Sustainable Investment Institutions - 3 to 5 points

“This credit recognizes institutions that use their investment power to promote sustainability. There are a variety of approaches an institution can take toward sustainable investment, including making positive investments that promote sustainability and engaging with companies in which they already hold investments. Positive investing supports socially and environmentally responsible practices and the development of sustainable products and services. Active investor engagement can help align an institution’s investments with its values, protect the institution from the financial consequences of fines, lawsuits, customer boycotts and damages to a company’s reputation that may result from unsustainable corporate behavior, and improve the sustainability performance of the businesses it invests in. Both types of activities contribute toward a more just and sustainable financial system.”

Full criteria in STARS v2.2 Technical Manual¹⁷

University of Pittsburgh STARS Score - 0 points.¹⁸

PA 11: Investment Disclosure - 1 point

“This credit recognizes institutions that regularly make their investment holdings publicly available. The transparency ensured by public disclosure acts as an important accountability mechanism and as a learning tool for students and other stakeholders.”

Full criteria in STARS v2.2 Technical Manual¹⁹

University of Pittsburgh STARS Score - 0 points.²⁰

¹⁷ Ibid, Footnote 13.

¹⁸ University of Pittsburgh. (2018). PA-9: Sustainable Investment, AASHE STARS v2.1. <https://reports.aashe.org/institutions/university-of-pittsburgh-pa/report/2018-02-28/PA/investment-finance/PA-9>. February 2018.

¹⁹ Ibid, Footnote 13.

²⁰ University of Pittsburgh. (2018). PA-10: Investment Disclosure, AASHE STARS v2.1. <https://reports.aashe.org/institutions/university-of-pittsburgh-pa/report/2018-02-28/PA/investment-finance/PA-10>. February 2018.

APPENDIX III: Sierra Magazine

The University of Pittsburgh has annually appeared in Sierra Magazine’s “Cool Schools Rankings” since 2014. It is current practice for Sierra Magazine to determine these rankings using select AASHE STARS documentation, plus an extra set of questions on “Fossil Fuel Divestment.” The 2019 questions are summarized below, with the University of Pittsburgh’s answer highlighted:²¹

- 1) Has your institution made a public decision to sell (or avoid) investments in any fossil-fuel companies? (Y/N)
 - If Yes, select all that apply
 - Our institution has committed not to invest in coal-mining corporations.
 - Our institution has committed not to invest in coal-mining corporations and coal-dependent utilities.
 - Our institution has committed not to invest in coal-mining and tar-sands-mining corporations.
 - Our institution has committed not to invest in any fossil fuel-producing companies.
- 2) If your institution has made a public decision to sell (or avoid) fossil fuel investment, does it apply to:
 - All endowment holdings (all stocks, bonds, and commingled or mutually owned shares and equity positions)
 - Only directly held shares
- 3) If you still have some fossil fuel holdings, does your institution plan to continue to sell off additional fossil fuel investments in the next year? (Y/N/We do not have any fossil fuel investments.)

²¹ Sierra Magazine. (2019). “2019 Cool Schools Rankings: Additional Question on Fossil Fuel Investments.” <https://www.sierraclub.org/sierra/2019-cool-schools-rankings-additional-question-fossil-fuel-investments>

APPENDIX IV: Summary of Integrating SRI/ESG Considerations into Investment Decisions of Other University Endowments

(Endowments ranked by 2017 size)

1. Harvard University

Overview.

Harvard University's endowment (valued at \$37.1 billion as of 2017) is the largest academic endowment in the world.

As a long-term investor, Harvard Management Corporation (HMC) is focused on material *environmental, social, and governance (ESG) factors* that may impact the performance of their investments, now and in the future. ESG factors are conditions, circumstances, or issues that can be found in areas such as energy consumption, greenhouse gas emissions, climate change, resource scarcity, water use, waste management, health and safety, employee productivity, diversity and inclusion, supply chain risk management, human rights (including workers' rights), and effective board oversight. They consider ESG risk factors in their investment analysis and decision-making process, and use a three-pronged approach to guide HMC's sustainable investment work and priorities:

ESG Integration.

HMC applies its due diligence framework to its commingled funds in absolute return, private equity, and public markets. The due diligence process includes reviewing the ESG policies and governance of potential fund investments, identifying how the fund integrates ESG factors into its investment decisions, and determining how the fund communicates ESG information to its limited partners. Depending upon the nature of ESG issues identified, they may also seek to include ESG terms in the investment fund term sheet.

Throughout the life of an investment, HMC monitors identified ESG risks and work with managers to ensure effective oversight. They also write letters to their team of external managers to inform them of their focus on sustainable investment and commitment to the PRI principles. The letter encourages managers to open a dialogue with HMC about their own approach to sustainable investment and how ESG factors impact its investment analysis and decision-making processes.

ESG integration also plays a significant role in their natural resources investments (see http://www.hmc.harvard.edu/investment-management/natural_resources_investments.html) and

real estate investments (see http://www.hmc.harvard.edu/investment-management/real_estate.html).

Harvard University regularly exercises its right to vote on shareholder resolutions, many of which present issues related to ESG matters. In considering proxies on environmental and social matters, HMC works closely with the University's Corporation Committee on Shareholder Responsibility and Advisory Committee on Shareholder Responsibility. Through the work of those committees, the University provides instructions on voting proxies related to environmental and social issues. Shareholder resolutions related to corporate governance matters are typically addressed by HMC. The University issues a publicly available annual report on the work of shareholder responsibility committees in regard to the voting of proxies.

Reference.

1. https://en.wikipedia.org/wiki/Harvard_University_endowment
2. <http://www.hmc.harvard.edu/about-hmc/index.html>
3. http://www.hmc.harvard.edu/investment-management/sustainable_investment.html
4. <http://www.hmc.harvard.edu/about-hmc/performance-history.html>
5. <https://www.forbes.com/sites/zackfriedman/2017/01/25/harvard-endowment/#2f5138e56d3c>
6. <https://www.ai-cio.com/news/harvard-alumni-call-new-investment-strategy/>
7. <https://harvardmagazine.com/2017/09/harvard-endowment-37-1-billion-on-8-1-percent-return>

2. Yale University

Overview.

The Yale University endowment (valued at \$27.2 billion as of 2017) is the world's second-largest university endowment, after the Harvard University endowment, and has a reputation as one of the best-performing investment portfolios in American higher education.

ESG Integration.

The Yale Corporation Committee on Investor Responsibility (CCIR) considers and makes recommendations to the Corporation on policy matters related to ethical investing. It is supported by the work of the Advisory Committee on Investor Responsibility (ACIR), whose membership consists of Yale alumni, staff, faculty, and students. The Investments Office works with the ACIR and CCIR to implement policies adopted by the Corporation.

In August 2014, Yale University's Corporation Committee on Investor Responsibility approved new environmentally conscious guidance for the campus-based Advisory Committee on Investor Responsibility when investing on behalf of the New Haven, Conn.-based university's \$20.8 billion endowment, said university spokesman Tom Conroy. By 2016, it had removed \$10 million of fossil fuel investments.

Climate change is on the forefront of social responsibility issues. A statement issued by Yale University President Peter Salovey explains that the CCIR's new guidance instructs the university to support reasonable shareholder resolutions “seeking disclosure of greenhouse gas emissions, the impact of climate change on a company's business activities and products, and strategies designed to reduce the company's long-term impact on the global climate including through the support of sound and effective governmental policies.” In the following years after 2014, the Advisory Committee on Investor Responsibility (ACIR) would implement this guidance in voting proxies on shareholder resolutions. In addition, Yale's chief investment officer, David Swensen, is writing to Yale's external investment managers to tell them they should consider the effects of climate change in the businesses in which they invest.

Recognizing that greenhouse gas emissions “pose a grave threat to human existence”, the Investments Office has asked Yale's Endowment managers not to hold companies that refuse to acknowledge the social and financial costs of climate change and that fail to take economically sensible steps to reduce greenhouse gas emissions. This constructive approach addresses fossil fuel concerns across the entire breadth of the portfolio and has been articulated in an initial statement and a follow-up report, which noted that Yale's managers sold holdings that were deemed inconsistent with Yale's approach. That is, in 2014, The CCIR, however, decided against recommending divestment of fossil-fuel companies' stocks. The CCIR's report argues that divestment is “neither the right means of addressing” climate change nor an effective one. Instead, the committee argues that “Yale will have its greatest impact in meeting the climate challenge through its core mission: research, scholarship and education.” The actions by the Investments Office are underpinned by the Yale Corporation Committee on Investor Responsibility's statement that addressed divestment from the perspective of Yale's ethical investment policies.

Yale's approach is predicated on the idea that consumption of fossil fuels, not production, is the root of the problem of climate change. Targeting fossil fuel suppliers for divestment, while ignoring the damage caused by consumers, is misdirected. Given the world's current (and growing) energy needs, modern society could not exist without fossil fuel consumption. Life's basic necessities, including food and shelter, require petroleum-based products and services. Without demand from governments, businesses and consumers, fossil fuel companies would not have a market for their products.

Society must transition towards cleaner energy sources. Under Yale's approach, investments with large greenhouse gas footprints are disadvantaged relative to investments with small greenhouse gas footprints, causing investment capital to flow towards less carbon-intensive businesses and

away from more carbon-intensive businesses. Until alternative energy technologies and infrastructures are more fully developed and more broadly implemented, fossil fuels will remain essential to support life on earth.

In 2016, David F. Swensen, Yale's chief investment officer, released a letter to the school's Advisory Committee on Investor Responsibility saying that Yale had taken several steps with climate change in mind, and has made progress in minimizing its endowment portfolio's exposure to less environmentally sound investments such as stocks of companies that contribute to climate change. Rather than simply selling investments as a response to political pressures, Yale was asking its managers to consider the financial risks of climate change and the risks that those investments held if governments did impose carbon taxes. "What we did was to take a look at the economics and come up with an economically driven decision," he said in a telephone interview. Mr. Swensen added that the reaction was heartening.

"When we sent out the letter, one of our energy-focused managers, Arc Financial, did an analysis of a carbon audit of every single energy position in the portfolio and assessed the exposure to more stringent emissions regulation," he said. "They are using it as a tool when they make new investments. They also published a white paper on the issue."

In his letter to the committee, Mr. Swensen pointed out that the firm developed "a framework for assessing, reporting and comparing the greenhouse gas intensity of fossil fuel operations on an apples-to-apples basis."

Two of Yale's other money managers had positions that were not consistent with Yale's approach, Mr. Swensen wrote. One held a small position in a company that engaged in the production and sale of coal. Another had interests on Yale's behalf in two publicly traded oil sands producers. Though the investments were valued at only \$10 million in total, those positions have since been sold.

While it would not have been as easy for Yale to sell investments in individual companies because it does not manage most of its money internally, it still has some separate accounts that would allow the endowment to sell those stocks as it did when it sold holdings in South Africa and Sudan some years ago.

For example, the Yale endowment was close to making an investment in an energy company. "That investment had even been approved by the endowment's board," Mr. Swensen said. "But when we sat down with the company and brought up these issues, they denied it was a problem, so we did not go forward with the investment." Swensen also said that by 2016 his letter had led to real changes in the portfolio and that discussing climate change risks with external managers had led to "higher quality and lower risk portfolios for Yale".

Reference.

1. <http://investments.yale.edu/endowment-update/>

1. <http://investments.yale.edu/our-strategy-2/>
2. https://en.wikipedia.org/wiki/Yale_University_endowment
3. <http://www.pionline.com/article/20140828/ONLINE/140829879/yale-approves-environmentally-conscious-investment-guidance>
4. <https://www.ft.com/content/92562cee-43fb-11e8-97ce-ea0c2bf34a0b>
5. <http://investments.yale.edu/social-responsibility/>
6. <https://www.nytimes.com/2014/09/08/business/yale-fund-takes-aim-at-climate-change.html>
7. <https://www.nytimes.com/2016/04/13/business/energy-environment/yale-advances-in-shaping-portfolio-to-address-climate-change.html>

3. University of Texas System

Overview.

The University of Texas System (UT System) encompasses 14 educational institutions in the U.S. state of Texas, of which eight are academic universities and six are health institutions. The UT System is headquartered in Downtown Austin and has a total enrollment of over 216,000 students (largest university system in Texas) and employs more than 87,000 faculty and staff. The UT System's \$24 billion endowment (as of the 2016 fiscal year) is the largest of any public university system in the United States.

ESG Integration.

UT gained access to its oil riches more than 140 years ago, though no one knew at the time. But after oil was discovered in Texas in 1901, UT System leaders began to suspect there was oil under their West Texas ground. In 1923, a wildcatter named Frank Pickrell was the first to strike at a well called Santa Rita No. 1, kicking off a rush that hasn't stopped since. These days, Hundreds of oil wells dot the horizon. As the oil and gas flows into pipelines, the money flows into the Permanent University Fund, which has grown from \$10.7 billion in 2010 to \$19.5 billion today. Each barrel pulled from the ground adds a few more dollars to the Permanent University Fund, a \$19.5 billion pot that supports an endowment for the UT and Texas A&M University systems.

In recent years, the annual cash payout from this oil fund has exploded: In 2011, the UT System — which oversees UT-Austin and 13 other campuses — received \$352 million from the fund. In 2007, it will receive \$603 million, and about half will flow directly to its flagship campus in Austin (the Texas A&M System will receive about \$300 million).

Reference

1. https://en.wikipedia.org/wiki/University_of_Texas_System

2. <https://www.texastribune.org/2017/08/21/ut-system-oil-money-gusher-its-administration-and-trickle-students/>
3. http://www.utimco.org/scripts/internet/funds_e.asp
4. <http://www.utimco.org/Funds/Endowment/PUF/PUFSemiAnnual201712.pdf>
5. <https://www.utsystem.edu/sites/default/files/documents/investment-policy-statements/Investment%20Policy%20Statements%3A%20GEF/2017DecGEFInvPolicy.pdf>
6. <http://www.utimco.org/funds/endowment/LTF/2017LTFAuditedFinancials.pdf>
7. <http://www.utimco.org/funds/endowment/phf/PHF2017AuditedFinancials.pdf>
8. <https://www.utsystem.edu/board-of-regents/rules/70201-investment-policies>
9. <https://www.utsystem.edu/sites/default/files/offices/board-of-regents/rules-regulations/70201.pdf>
10. <http://www.pionline.com/article/20170915/ONLINE/170919868/ut-endowment-funds-mark-13-plus-in-latest-fiscal-year>
11. <http://www.pionline.com/article/20170920/ONLINE/170929975/university-of-texas-endowment-hits-brakes-on-private-equity-as-values-rise>
12. <https://www.utsystem.edu/sites/policy-library/policies/uts-169-sustainability-practices>

4 Stanford University

Overview.

Stanford University established Stanford Management Company (SMC) in 1991 to manage the University's endowment funds. Today, SMC remains a key part of the University community and is the fiduciary for the \$27 billion Merged Pool, which comprises the substantial majority of Stanford's investable assets. Endowment funds constitute three-quarters of the Merged Pool. Other investment assets include non-endowment gifts, other reserves, and funds relating to the Stanford Hospital and the Lucile Packard Children's Hospital.

ESG Integration.

Alison Colwell joined Stanford in January 2016 as director of Investment Responsibility Stakeholder Relations (IRSR) – a new role focused on enhancing Stanford's ability to manage, and engage with the campus community on, issues of investment responsibility. Her position, which reports to the President's Office, serves as a central point of contact for the Stanford community on questions related to responsible investment of the university's endowment. The position also supports the Advisory Panel on Investment Responsibility and Licensing (APIRL),

a 12-member committee of students, faculty, staff and alumni that provides advice to the Board of Trustees on investment responsibility issues.

She is working very closely with the APIRL, which is actively reviewing a request from Fossil Free Stanford to divest from oil and gas companies. Climate change is an important and very complex issue that requires research and investigation. The APIRL is investing the time to do so and has accessed expertise within the Stanford community to understand the issues thoroughly. She also said that “I was extremely impressed by the huge investment Stanford made in its campus energy system to reduce greenhouse gas emissions.”

At SMC’s March 8, 2018 meeting, Faculty Senate hears report on management of Stanford’s endowment, Robert F. Wallace, chief executive officer of SMC, also addressed questions regarding Stanford investments that come up in campus discussions. Considerations of divestment requests are made by Stanford’s Board of Trustees, he said, noting that there is a community review process under way regarding the university’s investment responsibility policies and practices. Community input is being sought to inform that review.

In response to questions about Stanford Management Company’s approach to the social impact of investments, Wallace noted that “proper regard for human and environmental welfare coincide with long-term investment success.” While the university does not use the endowment to achieve specific social outcomes, he said, social and environmental issues are a part of the long-term economic viability of companies and industries that SMC and its partners assess when making investment choices.

“The endowment is not a tool for social activism,” Wallace also said in response to a question from biology professor Susan McConnell about how the SMC determines ethical investment. “We at the Stanford Management Company do not believe it is our job to try to achieve particular social outcomes unless they are consistent with our direct divestment policy or our long-term economic goals.”

Civil and environmental engineering professor Jeffrey Koseff also posed a question about whether the SMC should make use of Stanford’s economic resources to be a positive agent for social change.

“I think the capital we deploy in the world does really good things in the world ... because we are so focused on long-term results and because we are so careful about who we work with and [the companies we work with are] so careful about the companies that they invest in,” Wallace responded. “when there’s a problem, we fix it.”

“We spend an awful lot of time making sure that our investments are making the world a more productive place, providing goods and services that are valuable and that will improve people’s lives over time, while not damaging the communities or environment that those businesses are located in,” he said.

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5. Princeton University

Overview

As of June 30, 2017, Princeton’s Endowment stood at \$23.8 billion, an increase of approximately \$1.7 billion from last year. The vast majority of the Endowment, \$23.4 billion, is actively managed by the Princeton University Investment Company (“Princo”). While Princo maintains its own Board of Directors (the “Directors”), it is a University office operating under the final authority of the University’s Board of Trustees (the “Trustees”). The endowment comprises more than 4,000 individual invested funds. Princeton has one of the highest endowments per student in the country. It subsidizes every student—educational expenditures are approximately double the University’s tuition.

ESG Integration.

Princeton Coalition for Endowment Responsibility (PCER) , a student group on campus whose referendum passed with an overwhelming majority in May, 2012. Their mission is two-fold: increase student participation in investing decisions and implement more stringent oversight guidelines to ensure that the endowment is invested in a “socially responsible” manner.

Their founding mission as an organization is to exert student pressure to ensure that the University’s investments are as socially responsible, ethical, and transparent as they can be. They said they would achieve this goal through a multi-pronged approach:

- Create an oversight committee which monitors the investments of Princeton’s endowment
- Refine the University Investment policy statement to include ethical guidelines

- Educate the University community about the ethical, social, and environmental implications of the University's investment decisions
- Pressure the University to divest funds from socially irresponsible investments

On March 7 forum, 2013, Lily Adler '15, president of the Princeton Coalition for Endowment Responsibility (PCER), and Laura Blumenthal, a second-year master's-degree student in public policy, suggested giving less attention to divesting from -certain investments — such as companies that manufacture guns or produce fossil fuels — and more to supporting companies with positive social impacts.

The Resources Committee organized the forum as part of an ongoing discussion of ethical investing and social responsibility, according to Professor Deborah -Prentice, the group's chairwoman. The committee is considering a faculty petition for Princeton to divest its holdings in firearms companies and PCER's proposal for structural reform of the procedures for raising concerns about University investments.

Jonathan Macey, chairman of Yale's Advisory Committee on Investor Responsibility, was invited to the forum to present another model for addressing investment issues. Macey highlighted the importance of investment decisions to a university's reputation, and said many institutions are re-examining their policies. If Harvard, Yale, and Princeton were to decide to coordinate their strategies for ethical investments, he said, it would be "incredibly powerful."

Student campaigns urging universities to divest from industries such as fossil fuels and firearms have become increasingly popular recently. But from an economic view, as the Princeton economist Uwe Reinhardt recently wrote in the Daily Princetonian, divestment is a pretty hollow gesture. Campus campaigns are also superficial, Reinhardt reasoned, because students don't make any personal sacrifice when a university shifts its portfolio. So financially speaking, they may be purely symbolic.

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6. Massachusetts Institute of Technology

Overview.

MIT's endowment and other financial assets are managed through a subsidiary called MIT Investment Management Company (MITIMCo), a professionally staffed investment organization, structured as a division of MIT. Valued at \$14.8 billion in 2017, MIT's endowment is the sixth-largest among American colleges and universities.

ESG Integration.

The 116-day sit-in by members of Fossil Free MIT Coalition (FFMIT), directed against the MIT administration's climate action and investment policies, ended on March 1, 2016 with issuance of a joint statement. The administration did not agree to the FFMIT call to divest the endowment of stocks in the coal and tar sands industries. However, four areas of agreement were reached: "Moving toward campus carbon neutrality as soon as possible; establishing a climate action advisory committee to consult on the implementation of the Plan for Action; developing a set of strategies and benchmarks for MIT's engagement with industry, government, and other institutions; and convening a forum on the ethics of the climate issue." (David Chandler, MIT News, March 3, 2016).

During the Faculty Forum on the matter of decisions on the investments held by the MIT endowment, a number of faculty called on the administration to adopt the unanimous recommendation of its own Climate Change Conversation Committee to establish an ethics advisory committee to advise MIT on its investment decisions for its portfolio. The response was that such a committee was unnecessary and that the MIT Investment Management Corporation (MITIMCo), which manages the endowment, had its own ethics advisory committee and didn't need additional input. In the last issue of the Faculty Newsletter, Prof. Sally Haslanger expressed concerns that the administration's response to addressing ethical and humanitarian concerns was inadequate.

MIT's students, staff, and faculty deserve a public and legitimate Advisory Committee on Socially Responsible Investments that is responsive to and representative of campus concerns. American

colleges and universities that have established campus-based committees on socially responsible investing include Brandeis, Brown, Columbia, Dartmouth, Georgetown, Princeton, Stanford, Penn, and Yale (www.endowmentethics.org/committees_resources). The authority of the committees varies but establishing such a committee would be a major step forward from a private committee at MITIMCo. Hopefully, the MIT committee to be established under the agreement that ended the sit-in will come to a similar conclusion.

Regarding this issue, MITIMCo. also announced in their investment principles, that “We look for people with the highest standards of ethical behavior and strong reputations of fair dealings with others. MIT will undertake direct investments only if we possess the necessary expertise and competitive advantages. For example, we manage a portfolio of real estate in Cambridge around the MIT campus. Because MIT owns a critical mass of land holdings in Cambridge and is a large driver of demand for real estate space, we have advantages in this arena that third parties cannot match. In this particular circumstance, it also is important for MIT to take direct control of these investments because our goal is not simply to seek the highest financial returns with the properties. While it is important for a real estate project to be financially viable for it to be sustainable, we also want to attract innovative companies to the Cambridge area and to create a lively interactive environment that benefits local residents, local businesses and the MIT community.”

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7. University of Pennsylvania

Overview.

The University of Pennsylvania's endowment totaled \$12.2 billion as of June 30, 2017, an increase of \$1.5 billion over the past year. Penn's endowment is comprised of over 7,000 individual endowment funds benefiting the University's schools, centers, and Health System.

ESG Integration.

Over the past three years, University representatives have met several times with student leaders from the Penn chapter of the Student Labor Action Project (SLAP). A joint initiative of Jobs with Justice and the United States Student Association, SLAP is working to persuade investors in HEI Hotels (a privately held hotel management company specializing in under-managed U.S. urban business hotels and resort properties) to divest from the company in protest of what SLAP describes as unlawful anti-organizing practices and unfair working conditions for employees at HEI properties. Subsequently, Penn's SLAP chapter, and other chapters nationally, have requested universities pledge publicly not to reinvest in HEI-sponsored funds. In 2004, Penn participated, along with other endowments and institutional investors, as a limited partner in HEI's first fund. Penn has not participated in two subsequent funds. Penn also clarified their position in 2011 that the University has no plans to make future investments in HEI-sponsored funds. Any future consideration of an investment would take into account all relevant circumstances at that time.

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8. Texas A&M University System

Overview.

The Texas A&M University System is a state university system in Texas and is one of the state's six independent university systems.

The Texas A&M Foundation manages gifts of all types and sizes, with a focus on major gift endowments. They invest these gifts and disburse part of the investment earnings for the purposes donors designate. In this way, endowments remain forever, benefiting Texas A&M students, faculty and programs for generations.

The Texas A&M Foundation invests endowments using asset allocation to maximize growth while safeguarding capital during tough economic times.

ESG Integration.

There is no report or news regarding ESG-related investment of Texas A&M University System's endowment.

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9. University of Michigan

Overview.

The university's endowment provides steady financial support for the university's academic programs and other needs. Endowment funds were valued at \$10.9 billion at June 30, 2017. The majority of the university's endowment funds are pooled in the unitized University Endowment Fund (the endowment), which consists of more than 10,500 separate endowment funds. These figures represent endowment funds for U-M's three campuses and Michigan Medicine, the university's health system. Endowment funds are invested for the long-term, and earnings from those investments help support outstanding faculty, innovative programs and student scholarships. U-M's endowment is the ninth largest among all universities in the country, according to data compiled by the National Association of College and University Business Officers and the Common fund. The university's endowment per student ranks 84th, lower than many private peers with much smaller student enrollments.

ESG Integration.

In 1978, the Board of Regents adopted a resolution including the following language: "If the Regents shall determine that a particular issue involves serious moral or ethical questions which are of concern to many members of the University community, an advisory committee consisting of members of the University Senate, students, administration and alumni will be appointed to gather information and formulate recommendations for the Regents' consideration." Such a committee would be ad hoc, appointed only after the Regents determine that a particular issue might require a deviation from the normal investment policy.

South Africa stock divestment. The 1978 faculty committee that reviewed possible divestment from apartheid South Africa wrote that the University has some responsibility to consider the ethical implications of its investments “in those cases in which an extraordinary social evil is apparent and a broad consensus develops within the University community concerning the moral shortcomings of a particular firm or type of investment.” The committee stated its belief that “the University should not seek out controversy but rather should act only when a general consensus on a significant moral question has emerged within the University community.” It went on to say that the University “must make strenuous efforts to avoid making commitments, as a corporate body, to political positions that may intimidate its members, produce an atmosphere of distrust and suspicion, or create obstacles to free inquiry.”

Tobacco-related stock divestment. The 1999 committee to investigate tobacco divestment was created by President Bollinger in accordance with the Regents resolution, after several years of sustained community concern about this issue. Although it is impossible to affix a number or a percentage to what will constitute broad community consensus on a given issue, it is worth noting that the Faculty Senate Assembly, Michigan Student Assembly and a number of other University leadership groups passed formal resolutions or in other ways expressed the view that the University’s ownership of tobacco stocks was of widespread concern. The resolutions of the Senate Assembly and MSA were nearly unanimous. In its report, the committee noted that the “overwhelming majority of the responses” to the committee and to the University administration supported divestment.

In recommending divestment, the committee argued that tobacco companies make a product that is unique in its capacity to cause death in its intended use, with more than 400,000 deaths in the United States and more than 4 million deaths worldwide each year as a result of tobacco use. The committee singled out the “dishonest and reprehensible” behavior of the tobacco industry in targeting its products to young people, artificially enhancing the addictiveness of tobacco products through the addition of nicotine, denying the health effects of tobacco and suppressing scientific research. It concluded that the health effects of tobacco and the actions of the tobacco industry “are especially antithetical to the missions of this University, given our commitment to teaching, research and service in the fields of healthcare and public health.”

These two instances—reflecting concerns about apartheid in South Africa and the deadly effects of tobacco—are the only two instances in the University’s history when exceptions have been made to our investment policy.

In the future, such exceptions will continue to be rare. University said they would ask the Regents to appoint an ad hoc committee to investigate the ethical and moral implications of our investments only when the following conditions have been met:

- The concern to be explored must express the broadly and consistently held position of the campus community over time;

· There must be reason to believe that the behavior or action in question may be antithetical to the core mission and values of the University.

· There must be reason to believe that the organization, industry or entity to be singled out may be uniquely responsible for the problems identified.

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10. Northwestern University

Overview.

The Endowment Fund is stewarded by the Investments Committee of the University's Board of Trustees. Guided by the committee's policies, the University's Investment Office invests in a widely diversified pool of assets. For the majority of the investments in the Endowment, the Investment Office employs many of the world's most successful outside managers for public equities, fixed income, absolute return, private equity, and real asset strategies.

The Investment Office directly manages the remainder of the Fund (about 5 percent) internally, chiefly within the Fixed Income portfolio.

ESG integration.

Northwestern University plans to sign on to the United Nations-supported Principles for Responsible Investing, joining Harvard University and the University of California-Berkeley as the only U.S. universities to do so in Nov. 2015.

The U.N.-supported Principles for Responsible Investing is an international network of investors working to put six guiding principles into practice. They broadly address the importance of environmental, social and corporate governance (ESG) issues for investors to consider when making investment choices, explained William McLean, Northwestern vice president and chief investment officer.

“Becoming a signatory to the U.N.-supported Principles provides guidance to the external investment managers with whom we work that these are principles to consider as part of their investment strategy,” McLean said. “It doesn’t tell them what investments they can or can’t own, but that they should take these things into consideration.”

In general, Northwestern does not hold individual stocks or other financial instruments itself, but works with a number of external management firms that invest the University’s funds in a variety of ways.

The U.N.-supported Principles are:

- We will incorporate ESG issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the Principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the Principles.
- We will each report on our activities and progress towards implementing the Principles.

Becoming a signatory means that Northwestern will submit a publicly available report that documents details of the University’s organization and investment process. However, the reporting is high level and does not disclose individual investments or external investment managers.

McLean credited the Northwestern students involved in the Fossil Free NU group with raising the issue of socially responsible investing and discussing it with representatives of the Northwestern University Board of Trustees Investment Committee. “The meetings with the students have been very constructive. I understand that we may not be taking this as far as they may want in terms of divestment, but I think adoption of these principles is an important leadership step and will provide us guidance going forward,” McLean said. “I’m sure we’ll continue to meet with the students.”

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11. Columbia University

Overview.

Columbia's endowment is an approximately \$10 billion portfolio of equities, commodities, fixed-income instruments, and cash equivalents. It is not a "slush fund" for spending, as it is meant primarily to serve as a long-term investment vehicle. On the other hand, it's not just a pile of money that serves no purpose but to grow each year either. It is managed by the Columbia Investment Management Company.

ESG Integration.

Columbia's investments are subject to review by the Advisory Committee on Socially Responsible Investing (ACSRI), which was established as a permanent addition to the University in March 2000. The Committee's purpose is to advise the University Trustees on ethical and social issues that arise in the management of the investments in the University's endowment.

ACSRI did not yet exist when Columbia made its most famous divestment, from apartheid South Africa in the 1980s, after an extended political battle and the occupation of Hamilton Hall by pro-divestment students. ACSRI recommended divestment from Sudan in 2005, and this was carried through by the Trustees.

The Committee will set its own agenda within the broad arena of socially responsible investing, and will, by formal vote of a majority of the Committee membership, make recommendations to the University Trustees on issues related to investments in the University's endowment, including but not limited to the exercise of the University's proxy-voting rights, shareholder initiatives, and portfolio screening. To this end, the Committee will set out a specific agenda to the Columbia community each fall to be submitted to the University Trustees and the University Senate. The Committee, however, will determine the SRI issues it researches and the recommendations it makes to the University, including its response to issues that arise after the preparation of its annual agenda.

The University will also provide the Committee with current information on a confidential basis regarding endowment holdings and investment management actions of the University related to SRI issues under review by the Committee. The Committee's deliberations using such information will take place in executive session, and information given the Committee regarding the University's endowment will be held in confidence by members of the Committee and used solely to formulate recommendations from the Committee to the University Trustees. To keep the Columbia community informed on these matters, the Committee's formal recommendations to the University Trustees and the subsequent action or response by the University Trustees will be reported.

To ensure that the Committee is broadly representative of the University community, its twelve voting members are drawn in equal proportion from students, faculty, and alumni of the University, and the process for the appointment of its members provides for balanced representation, over time, of the University's divisions and schools. Two University officers sit as non-voting members in addition to the twelve voting members.

Some examples for divestment. Presently, the Columbia Coalition Against the War (CCAW) is spearheading an effort to have Columbia divest from companies that presently materially support or benefit from the war in Iraq. CCAW is targeting three companies in which Columbia is presently invested to the tune of around \$1.5 million each: Raytheon, General Dynamics, and Lockheed Martin. CCAW's 12-page formal proposal notes:

Divestment by Columbia alone would not be sufficient to change corporate behavior, but it would be an immensely powerful symbolic act and, if imitated, might help provide a significant financial incentive for change. Moreover, Columbia has an ethical obligation to avoid complicity in the ongoing brutality associated with the occupation in Iraq.

Two members of CCAW wrote an op-ed for the Spectator entitled "Columbia Has a Responsibility to Divest".

Such divestment will not have any financial effect. For example, take Boeing, which has a market capitalization of \$76 billion as of 1Q 2007. If Columbia's endowment even remotely mirrors the SEC's definition of a "diversified investment company", then it can have no more than 5% of total assets in a single company. If 5% were completely invested in Boeing (unlikely, since, as mentioned, Columbia's portfolio contains over 4,000 different investments), then that would still represent approximately 0.395% of Boeing's market value. Columbia's holdings for the three companies in question are as follows (closing prices as of 19 September 2007): 0.0055% of Raytheon, 0.0045% of General Dynamics, and 0.0036% of Lockheed Martin.

Moreover, it is highly debatable as to the depth of influence of an "immensely powerful symbolic act" as well as the plausibility that such an act would be imitated. It is widely accepted that most investment managers and institutional investors seek to maximize their net present value. Even if an enormous group of investors decided to divest their holdings, it would merely artificially and temporarily depress asset prices, making the lower valuation of the companies in question far more attractive to other investors as the fundamentals of the company such as their business model would not have changed. This is also attractive to the companies in question because low valuations would allow them to buy back their own stock at a discount and by extension, increase their return on equity (ROE).

The only way to actually make divestment effective in the sense of financially crippling the company's ability to manufacture, market, and service arms is to somehow force every holder of stock connected with companies involved in supplying coalition forces in Iraq with war materiel to sell their holdings, which is impossible and absurd because, to begin with, for there to be a successful sale, there must be buyer for every seller.

Finally, where activists do exist in the institutional financial management world, they usually concern themselves with issues of corporate governance and business decisions, such as executive compensation or the long-term financial benefit of a risky project. Very few corporate activists bother pursuing divestment policies purely on a socially responsible line of thought.

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12. University of California (system-wide regents portions only)

Overview.

The University of California is a system of 10 campuses, five medical centers and three affiliated national laboratories. The Office of the President, located in Oakland CA, is the University's headquarters.

UCOP supports campuses and students through systemwide funding and programs. It manages the University's multi-billion-dollar operations and investments. It oversees medical centers and national labs. It provides centralized labor relations and legal services. And it promotes the well-being of its diverse and large workforce through benefits and retirement programs.

The Office of the President coordinates activities that allow a complex and unique system to operate efficiently as one university, furthering its public interest, academic and research missions. It oversees and manages programs that serve the entire university system, allowing campuses to capture the savings and efficiencies that come from centralized operations. Specifically, it manages UC's \$100 billion investment portfolio, including campus endowment funds and the UC pension fund that serves 270,000 faculty and retirees from across UC's campuses and medical centers.

ESG Integration.

Chief Investment Officer, Jagdeep Bachher said that “We work with the Committee on Investments of the UC Board of Regents to determine the most appropriate balance of asset allocation strategies and long-term goals to meet the UC community objectives. We implement these strategies in a manner that leverages our size and scale, our ability to take a long term view, and the competitive advantage that comes with being the University of California. All of these considerations require us to keep sustainability in mind as we evaluate new opportunities and risks, and stress-test our existing holdings.

The best investors recognize that markets are constantly fluctuating and that no good idea lasts forever. Understanding how markets are changing is critical to our ability to secure the best results for the university and its many stakeholders. Environmental sustainability, social responsibility and prudent governance factors inform our understanding of the future business environment, and this helps us navigate evolving risks.

Some stakeholders argue that our “fiduciary duty” prevents us from considering any values that are more intrinsic than the best possible risk adjusted returns available in markets. In other words, they say we must earn the most money possible, regardless of the “moral” dimension of the source of those funds. Indeed, there are well-respected studies that prove statistically how exclusionary policies can hurt the performance of pension investment.

But there also are growing reasons to believe that the full remit of fiduciary duty may now require systematic attention to sustainability factors.

And of course, most of us do consider our values and beliefs in our everyday lives; at the Office of the Chief Investment Officer of the Regents, we believe that certain core sustainability values are needed to keep us grounded as we attempt to respond to new and dynamic market conditions. We keep these beliefs in mind as we aim to ensure the best return on investment for our university and its many stakeholders.

We believe that evolving long-term risks and opportunities, such as global climate change, water scarcity, income inequality, and the sharing economy movement, to mention a few, will influence investment returns in the future”

Climate Change. The University of California Feb. 19, 2015 announced a series of steps it has taken to combat global climate change by investing in sustainability, including becoming the first university in the world to sign the Montreal Carbon Pledge.

The measures are part of UC’s efforts to fully implement an environmental, social and governance (ESG) investment strategy, the adoption of which was announced in September among the results of the president’s Task Force on Sustainable Investing. In recognition of these moves, the White House announced last week that UC would play a major role in its Clean Energy Investment

Initiative, which stems directly from the university's commitment to profitably invest at least \$1 billion over the next five years in solutions to climate change.

UC's progress in implementing its ESG policy will be more fully discussed at the Friday (Feb. 20) meeting of the UC Board of Regents' Committee on Investments, to be held at UCLA.

Earlier this month, UC became the first university in the world to sign the Montreal Carbon Pledge, sponsored by the United Nations-supported Principles for Responsible Investment (PRI), an international network of investors with some \$45 trillion in assets under management.

The pledge is a first step toward measuring the long-term investment risks associated with climate change and carbon regulation. By becoming a signatory, UC commits to measuring and annually disclosing the carbon footprint of its investments with the goal of using this information to inform carbon asset risk and management strategies.

"We invite others to take this important step with us," said UC Chief Investment Officer Jagdeep Bachher. "As we ask more from the companies we invest in, we must hold ourselves accountable for measuring and managing the carbon risks in our portfolio."

The university also recently joined two prominent sustainable investment efforts:

- Ceres and its Investor Network on Climate Risk (INCR), a group of more than 100 leading institutional investors, companies and public interest groups committed to addressing the risks, and seizing the opportunities, resulting from climate change and other sustainability challenges
- The Carbon Disclosure Project (CDP), the largest provider of company-level data on greenhouse gas emissions, water use and forest management.

"As we look to integrate sustainability into our investment analysis and identify emerging investment risks and opportunities stemming from climate change, the resources of these networks and projects will assist us in better measuring the holistic risk we take in our portfolio," Bachher said. "These entities give us a platform to engage companies on important environmental, social, and governance issues alongside other large institutional investors."

In addition, UC's Office of the Chief Investment Officer has partnered with the PRI and a select few global investors on a project to develop best practices for addressing climate change and carbon at the portfolio level. The project is timed to be completed by the United Nations climate negotiations scheduled for late 2015 in Paris.

"Many organizations write about the importance of sustainability," said UC Regent Paul Wachter, chair of the Committee on Investments, "however we are focused on taking concrete steps to integrate sustainability into our investment decision-making process."

"While it's nice to receive recognition for the steps we have taken," Bachher said, "we continue to focus on further developing our ability to incorporate analysis of all environmental, social, and

governance risks in our portfolio and working with our peers to encourage companies to act in a manner that will benefit investors with long-term horizons and commitments to future generations.”

Professionals and Partners. Moreover, OCIO has begun an ongoing dialogue with their managers to ensure they understand the priority they place on sustainability and to make sure they understand how their managers assess ESG risks in the investment process. For those who have not already done so, they will encourage their managers to become PRI signatories and report on their sustainability efforts. They have begun to apply oversight and monitoring of ESG policies of our external managers. Over time, they will implement asset class-specific manager selection and monitoring guidelines that will, among other steps, integrate ESG criteria into manager due diligence, incorporate ESG criteria into manager agreements, and review manager performance against a set of key ESG performance indicators.

Professors and Scholars. OCIO will continue prioritizing stakeholder engagement and partnering with the University of California community throughout this process as they work to establish the university’s leadership on environmental, social and governance issues. We will continue to look to the UC community for advice, counsel and educational materials to inform our sustainability processes.

Peers and Platforms. OCIO is always looking to collaborate and, where possible, invest with like-minded peers. The resource innovation ecosystem will require collaboration among long term investors to align together to deploy capital more efficiently into assets that would be left behind by traditional intermediaries, but hold promise for reducing greenhouse gas emissions at scale.

Fostering Sustainability Culture. OCIO is at the beginning of this journey and have many more steps to take toward fully integrating sustainability into their investment process. They will continue to expand their resources and capabilities around sustainable investment by providing relevant education and training for OCIO staff, utilizing third-party research and tools, and learning from their peers.

Reporting the Progress. To ensure transparency, accountability and progress, the OCIO will establish a reporting cycle with the Committee on Investments. They also will develop a separate sustainability page on the OCIO website to highlight and report on their sustainable investment efforts and the progress they are making. This resource also will provide links to important peer reviewed research, publications and editorials that can inform our staff, our stakeholders and the public. They hope, through this effort, to take an exemplary leadership role in sustainable investing in a manner that is not just symbolic but realistic and effective.

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13. University of Notre Dame

Overview.

The Investment Office is responsible for managing the University's financial assets in accord with policies established by the Investment Committee of the Board of Trustees. These assets include pension and working capital assets, charitable trusts, and the largest component, the Notre Dame Endowment.

ESG Integration.

In 2014, Mr. Malpass was part of the founding group for Catholic Investment Services, Inc., a not-for-profit offering top tier investment solutions to Catholic organizations nationally that comply with the USCCB Guidelines for Socially Responsible Investing.

One of the largest endowments to incorporate ESG criteria along these lines is the \$7 billion endowment of the University of Notre Dame, where the chief investment officer Scott Malpass has managed to generate enviable long-term returns while also observing the US Conference of Catholic Bishops' guidelines for socially responsible investing. The guidelines provide a no-buy list of some 250 companies whose products, policies or charitable corporate giving support abortion, embryonic stem-cell research, contraceptives, or pornography, or companies involved in arms manufacturing, discrimination or "sweatshop" labor practices. 24 Notre Dame also joined other schools that divested from energy companies doing business in the Sudan due to human rights concerns over the genocide in Darfur. Given that under Malpass's leadership the university has radically diversified its endowment into alternative asset classes, the case of Notre Dame highlights that the incorporation of a broad array of ESG criteria is not necessarily at odds with

the so-called “Endowment Model of Investing.” However, it remains unclear to what extent Catholic SRI guidelines are also applied to alternative asset classes, such as private equity, especially since the school is one of the high-profile endowments invested in HEI. In 2010, student activists went on a hunger strike to protest “the way in which HEI treats its workers [which] is in direct conflict with Catholic Social Teaching on workers’ rights, including the right to dignity, respect, fair wages and to organize.”

Discussion about divestment from fossil companies. Mayors and governors across the country have stepped up and vowed to uphold the United States’ agreement at the Paris Climate Accord. Organizations and businesses across the nation are taking drastic action to fight climate change. In this spirit, on October 4, 40 Catholic institutions celebrated the Feast of Saint Francis of Assisi by announcing that they would divest from fossil fuel companies, joining at least 20 others that had previously done so. As a Catholic and moral leader, the University of Notre Dame should join these institutions by divesting from fossil fuel companies

“By investing endowment funds in fossil fuel companies, Notre Dame is propping up a system of climate injustice. Fossil fuel companies destroy habitats, poison air and water and emit atrocious amounts of greenhouse gases, all while stealing resources from future generations. These externalities are increasingly propagated among the world’s poor and voiceless populations. Unable to voice opposition, these populations lack the resources to adapt or move away from the negative effects of fossil fuel extraction. As a moral leader, Notre Dame must firmly state that climate injustice is unacceptable, divest from fossil fuel companies and encourage individual action to battle climate change.

As students of a Catholic university, it is imperative that we take individual action to reduce our greenhouse gas emissions. Now that our federal government has failed us, it is up to small organizations and individuals to make a substantial lifestyle change. Whether we reduce our meat intake, ride a Limebike to Belmont or swear off the use of disposable plastic, we each have a duty to reduce our personal emissions and speak up against climate injustice. Attending a world renowned Catholic institution requires us to lead by example, both by demanding Notre Dame’s divestment from fossil fuel companies and by individually acting in a way to minimize our impact on our common home.”

Following the announcement last month December 2017 that 40 Catholic institutions have agreed to divest from all fossil fuels, a recent letter to the editor in The Observer called on Notre Dame to follow suit and divest as well.

In the interest of full disclosure, Katie Brown, a Notre Dame alum who now works in energy and natural resources at a consulting firm, argued that “I certainly respect the Notre Dame divest campaign’s resolve — and share in their concerns for the environment — but divestment is not the way to achieve progress on climate.”

“First, it’s important to remember that natural gas is what is helping the United States lead on climate, because it has far fewer emissions than traditional fuels. Even the United Nations Intergovernmental Panel on Climate Change (IPCC) — the most prominent climate scientific body in the world — has said that our increased use of natural gas for electricity generation is an “important reason” for the United States’ dramatic reduction in carbon emissions.

Even more importantly, as Catholics, we are called to serve the poor — and there are so many people in our own communities and in developing countries who don’t have access to affordable energy. In other words, divesting from the most affordable resources we have is not the best way to help them. Even Bill Gates has stated that, “We should not try to solve the [climate] problem on the backs of the poor. For one thing, poor countries represent a small part of the carbon-emissions problem. And they desperately need cheap sources of energy now to fuel the economic growth that lifts families out of poverty.”

Divestment would also be a financial blow to students at Notre Dame: One study finds that purging the Notre Dame’s endowment of fossil-fuel related equities could cost the fund tens of millions due to the transaction and management costs, not to mention reduced diversification benefits from giving up a key sector of the economy. That’s money that’s not going towards scholarships, faculty recruitment or even some of the University’s great sustainability programs.

We all want to be responsible stewards of the environment and advocates for the poor, but divestment is not the right way to accomplish either of those things. Instead of making an empty gesture through divestment, Notre Dame is right to move forward with real solutions.”

In response to ‘Divestment is not the answer’, a member of Notre Dame’s divestment campaign, FFND, Carolyn Yvellez, said there is a need to respond to the three specious arguments she poses in her letter.

She first posits that “natural gas is helping the United States lead on climate.” Natural gas is often praised for being “clean burning” and for decreasing CO₂ emissions compared to coal power. However, this assumes that 100 percent of natural gas reserves are burned. Unfortunately, significant percentages of natural gas are lost every day through leaks — allowing methane, a greenhouse gas even more devastating than CO₂, into the atmosphere. Furthermore, the large sums of money that are currently being thrust towards natural gas investments as a replacement for coal could likely be better invested in renewable energy projects — projects that do not pose threats such as methane leaks or water pollution.

Secondly, she argues that divestment would hurt the poor in developing countries that need access to cheap resources. FFND has heard this type of rhetoric time and time again. The vice president of the University has told us that fossil fuel companies serve as a lifeline for over 3 billion people in the world. This statement reflects a lack of knowledge of the divestment process and uses rhetoric meant to dissuade students and institutions from using their voice and power to demand fossil fuel companies respond to the climate crisis. Divestment doesn’t happen overnight. It doesn’t

bankrupt companies and disrupt production that would leave people without access to electricity. It is a strategic and symbolic maneuver that pressures companies to transition their energy portfolios to meet the increasingly popular demands for access to clean, renewable technology. This statement reflects a lack of knowledge of the divestment process and uses rhetoric meant to dissuade students and institutions from using their voice and power to demand fossil fuel companies respond to the climate crisis. Divestment doesn't happen overnight. It doesn't bankrupt companies and disrupt production that would leave people without access to electricity. It is a strategic and symbolic maneuver that pressures companies to transition their energy portfolios to meet the increasingly popular demands for access to clean, renewable technology.

Lastly, she contends that divestment would hurt the Notre Dame student body because diminished profits would result in less financial aid. To prove this point, she cites one study that just so happens to be “a project of the Independent Petroleum Association of America.” Yikes. But let's put aside the glaring conflict of interest once again and consider the argument at face value. Does Notre Dame need to be conscious of how it invests to ensure a hefty financial aid package? Sure. But as multiple studies show, a litany of peer institutions (such as those who divested in October), entire cities (including NYC) and whole countries (Ireland) can attest their investment portfolios have remained profitable. If that doesn't impress you enough, we just spent over \$400 million dollars on a colossal stadium project. Currently the University has about 4 percent of a \$10 billion endowment invested in fossil fuel companies. I'll let you do the math. It's not a problem of cost; it's a problem of priorities.

In reality, the divestment movement is heating up and finding great success throughout the world. In Bill McKibben's latest article, “3 Strategies to Get to a Fossil Free America,” he writes: “The fossil fuel–divestment movement has become the biggest corporate campaign of its kind in history, with endowments and portfolios worth a combined \$6 trillion having sworn off coal and gas and oil in part or in whole.” He adds that studies (not funded by fossil fuel companies) have found that “the campaign has catalyzed the rest of the climate movement, driving the debate towards grappling with the harsh reality that we had far more carbon than we could ever burn ... [and] the falls in share values that divestment has caused help[s] dry up the capital needed for more exploration and drilling.”

Divestment is working. Notre Dame needs to get on board and start prioritizing the planet over profits.

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14. University of Virginia

Overview.

The University of Virginia Investment Management Company (UVIMCO) invests the endowment and other long-term funds held by the University and its foundations in a Long Term Pool, approximating \$8.6 billion as of June 30, 2017. The Long Term Pool is custom managed for the endowment spending requirements and risk profile of the University. VIMCO also manages a Short Term Pool for University and foundation funds with near-term liquidity needs.

ESG Integration.

Colleges and universities throughout the world are examining the issue of divestment in fossil fuels. The University of Virginia invests its endowment and long-term financial resources with the University of Virginia Investment Management Company (UVIMCO), an independent 501(c)(3) organization overseen by its own Board of Directors. UVIMCO maintains a diversified investment portfolio designed to provide long-term financial benefits to UVA's students, faculty, and staff within the risk tolerance of the University. Distributions from these investments provide a vital source of funding for many University operating programs.

Both UVIMCO and the UVA administration have undertaken an extensive review of the issue of divestment, including reviewing policies at peer colleges and universities, engaging student organizations and other special interest groups on Grounds, and analyzing the impact divestment could have on overall financial returns.

The University of Virginia has heard from student groups whose preference is for the University to divest from companies focused on fossil fuels. In the spirit of the Board of Visitors (BOV) and UVA administration's interest in hearing students' opinions, and in acknowledging the thoughtful

paper prepared by the students on the issue of divestment, several UVA Board members were pleased to meet with these students and the Sustainability Committee Student Group to listen to their concerns.

The University believes it can most effectively impact climate change through continued investment in teaching, research and operational sustainability initiatives. UVA's strong financial position helps make UVA's numerous sustainability initiatives possible. In addition, many fossil fuel companies are also emerging leaders in developing renewable energy sources. After careful consideration and analysis, UVA will continue with its current investment practices in line with its fiduciary responsibility to its stakeholders and the Commonwealth of Virginia.

In conclusion, the University believes the most effective and practical impact is achieved both by investing selectively in promising renewable energy technologies, by converting University energy consumption to renewable sources and by investing in and promoting conservation (water, design of buildings, facilitating pedestrian and bike traffic).

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15. Duke University

Overview.

The mission of Duke University's endowment is to support the people, programs, and activities of the university in perpetuity. Over the years, growth of the endowment through investment return and charitable giving has enabled the university to provide scholarships and fellowships to students, build faculty excellence, launch new programs and research efforts, and support a wide range of important needs.

ESG Integration.

Duke University is taking strides in investment options and policies, particularly in the fall of 2013. Duke expanded their Advisory Committee on Investment Responsibility to include one trustee, one more faculty member, and an additional undergraduate and graduate student. Many key steps towards increasing sustainability within endowment investments comes from within student organizations such as the DukeOpen Committee. This student-led group raised the idea for a Social Choice Fund through the University; however, as is the case at Brown University, the popularity of such an option is questionable as only a small fraction of the investment community is contributing through the fund. Even with potential lack of interest of donors towards the Social Choice Fund, such a step forward by Duke is pivotal for overall increased investment sustainability as it also increases the overall role of the ACIR (Advisory Committee on Investment Responsibility). Duke also worked to maximize the role student interests in investments with established guidelines since 2004. This step plays a critical role in the sustainability and transparency of investments. According to President Richard Brodhead, “The catalyst for this action has been consistent advocacy by our students.”

ACIR. The primary fiduciary responsibility of the Board of Trustees is to oversee the management of the University’s investment assets to maximize returns; however, in some cases it will be appropriate to consider moral and ethical issues raised by members of the University community. The Advisory Committee on Investment Responsibility (ACIR) assists the President in making recommendation to the Board of Trustees in keeping with the Board's Guideline on Socially Responsible Investing.

Thus for investments not governed by the Employee Retirement Income Security Act (ERISA), when the Board of Trustees judges that corporate policies or practices cause substantial social injury, it will give weight to this factor in investment practices related to corporate securities.

Actions the University takes may or may not materially affect an offending corporation, but such actions may have significant symbolic value. When the University community has engaged in substantive discourse on an issue and expressed broad concern that substantial social injury is being caused by such policies or practices, the president may make a recommendation to the Board of Trustees.

Where the Board of Trustees finds that a company’s activities or policies cause substantial social injury, and that a desired change in the company’s activities would have a direct and material effect in alleviating such injury, it may instruct the Duke University Management Company (DUMAC) to take appropriate action, including the exercise of the University’s practicable shareholder rights to seek modification of the company’s activities to eliminate or reduce the injury, using such means as

- a) direct correspondence with management

- b) proxy votes
- c) sponsoring shareholder resolutions

If the Board of Trustees further concludes that the company has been afforded reasonable opportunity to alter its activities, and that divestment will not impair the capacity of the University to carry out its educational mission (for example, by causing significant adverse action on the part of governmental agencies), then it may instruct DUMAC and its managers to divest the securities in question within a reasonable period of time.

ACIR has made recommendations with respect to several issues such as Sudan/Darfur case, conflict minerals, fossil fuels, and endowment transparency as could be found in the website (<https://acir.duke.edu/documents/>)

Concerns of ACIR. The New York Times reported that as recently as 2015, Duke owned shares in Ferrous Resources, an iron mining company in Brazil. The report indicated that investment funds connected to Duke held more than two million shares in the company.

At a meeting of the Advisory Committee on Investment Responsibility Tuesday evening, its chair—Lawrence Baxter, William B. McGuire professor of the practice of law—said that Duke has owned an “extremely small” stake in Ferrous Resources since 2007 and has been declining since.

Ferrous Resources is involved in mining operations in Minas Gerais, a state known for its iron-ore mining in Brazil. In 2010, the company announced plans to create an iron slurry pipeline in the region, but there was considerable pushback against the project, leading to its discontinuation. According to The New York Times, a 2010 environmental study found that more than 100,000 people could be affected by dust, soil degradation and poor water quality as a result of the pipeline.

Paul Baker, professor of earth and ocean sciences, said that the mining industry in Minas Gerais has been controversial. He cited the 2015 spill of 50 million tons of mud and mining waste after a dam owned by Vale SA burst. Baker said Vale has yet to take responsibility for their actions. Alexander Pfaff, professor of public policy, economics and environment, pointed to a 2017 article discussing the dangers of mining in the Brazilian Amazon.

The piece found that mining had increased forest loss up to 70 kilometers outside of the mining area. The total amount of deforestation it found due to mining in the area was 11,670 square kilometers between 2005 and 2015, which the study says represented nine percent of all forest loss in the Amazon during that interval.

Baker said that he did not necessarily think there was any ethical problem with Duke being invested in Ferrous, so long as the company does not have a particularly egregious track record.

‘blocker corporation.’ According to the New York Times report, Duke is also one of many universities using so-called offshore “blocker corporations” as part of its investment practices to avoid paying taxes on certain investments.

According to The New York Times report, a Duke fund—the Gothic Corporation—uses a blocker corporation to invest in a Cayman Islands private equity fund called Genstar Capital Partners V HV. The Gothic Corporation is a wholly owned subsidiary of the Duke Management Company (DUMAC).

The report did not say who created the blocker corporation, but West explained that blocker corporations are often created by financial managers, and then that universities or nonprofits can invest in those corporations.

Neal Triplett, president of DUMAC, declined to comment.

Although several people at the ACIR forum expressed concern that this practice is unethical, West said it flows naturally from the goal of a university or nonprofit endowment. It makes sense for entities that are normally tax-exempt to attempt to preserve that status when making different investments, he said.

“One of their fiduciary duties should be to minimize the tax on an otherwise non-taxable entity, because the more money you pay on tax the less money goes to the university, or financial aid, or to whatever it may be,” he said. “That is the purpose of the blocker corporation.”

Baxter and other ACIR members shared similar beliefs about the use of such arrangements.

But whereas hedge funds don’t usually face a corporate income tax in the first place, the rules mean a university must use a blocker corporation to invest in a hedge fund without the tax burden.

“I think the best way of thinking of this is that the rules are overly restrictive when it comes to alternative investments like hedge funds and private equity funds, but at the same time they have this easy avoidance maneuver,” he said.

On Tuesday, members of the Duke community attended a meeting to express their concerns about how Duke uses blocker corporations and about its investment in Ferrous Resources.

“We heard about this as recently as you,” Baxter said, referencing the use of blocker corporations.

Baxter noted that Ferrous Resources was not necessarily bad, but that it was worth studying further.

“The one thing that worries me is that the mining issue starts looking a lot like conflict minerals,” he said. “We need to learn more about that. I’d never heard of Ferrous Resources until that article so we need to know what is it, is it something that is effective, is it something that if we withdraw from it the miners lose their jobs or is it so iniquitous—I just don’t know.”

Sophomore Gino Nuzzolillo attended the ACIR meeting and was surprised by the committee's response. "So the committee that's supposed to be advising the Board of Trustees and DUMAC on investment responsibility did not know about Duke's investment in Ferrous Resources until six days ago?" he asked.

ACIR can only see what's in the University's direct holdings, which comprise a small part of the total endowment, Baxter and Schoenfeld indicated. Much of the rest is in managed funds, or what Schoenfeld called "funds of funds." It might not be easy for DUMAC to know where all the University's indirect investments—for example, through blocker corporations—are at every given moment, Baxter said. This is true given how frequently investment positions can change. But Baxter said DUMAC might have the right to ask the blocker corporation or other indirect investment vehicle about their holdings. Based on his work on blocker corporations, West said that the nonprofit or university likely receives a sectoral breakdown of stocks from the blocker corporation at specified intervals.

One attendee was concerned that Duke's socially responsible investment guidelines had not been updated since 2004 and were rather vague. Baxter said he would welcome having that conversation. Persistently through the meeting, it became clear that members of ACIR did not have all the answers to questions posed by the audience. Audience members were curious to know by what ACIR's next steps regarding studying Ferrous Resources would be. Baxter wrote in an email to *The Chronicle* that he was planning a public forum in the Spring so DUMAC can explain how it makes its investment decisions. He also called for members of the University community to submit "reasoned and fact-based memos" that can be considered and discussed by ACIR and said they may consider adding a comment feature to the website.

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