

STARS Advisory Committees Focus Call
Monday, November 12, 2007

Topic: Investment

Participants

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Agenda

1. General

QUESTION 2: What types of institutions don't have endowments, and how should they be handled by the rating system?

Community colleges generally don't have endowments; but some do – they're just small and maybe not invested in stocks. Great variation among institutions. Publics may have less incentive to have huge endowment, as it could hurt state funding. Different disclosure rules apply as well. Basically, no easy answer to this question.

Demographics of endowment community worth noting. About ¾ of schools have no measurable endowment. Highly concentrated. Disclosure rules vary among states; governance structure may also be different. Rules made by university don't necessarily carry over to foundations.

QUESTION 1: Should the focus be on university investables, foundation investables, or both? What if a campus is transparent about one but not the other? How can credit be written to be fair?

Focus on both. Some colleges have separate foundations, some have both institutional accounts and foundation accounts. Most institutions structure endowment one way or another – privates generally have internal structure or part of management company. Publics tend to have separate 501(c)(3) entity. Some universities have both, i.e., system fund + foundation endowment. Open records laws apply in handful of states, but foundations don't have to abide by state disclosure laws. Both funds are really crucial. Also there is often an alumni endowment or fund, and an operating budget (which can be invested in a community bank).

All schools seem to have some sort of investments – even a community bank or “new resource” bank for operating funds. These should probably count as a sustainable investment, even though may be operating funds as opposed to endowment investments.

2. GF9 Credit 9 – Committee on Shareholder Responsibility

QUESTION: How much should we specify about the composition of the committee?

Does it make sense to require a committee at small schools or schools with small endowments? Maybe responsibility would go to audit & finance committee that has line responsibility, or build off another existing committee rather than establishing a separate committee. (Pros & cons to that.) No need to worry about governance structure and issues, because the committee would be advisory to Board. Problem with “advisory” is that in many scenarios Board could accept or act on very few recommendations.

Should students be involved on committee? Yes, educational.

Potential new credit: “Institution has Investment Policy” – could cover a number of the above. Allows for flexibility as to how it's organized. Big question is implementation of policy. If no support, then it can be ineffective. Policy may not be sufficient; but it's a step; institution might get a point for it. Allows campus members to challenge institution when not living up to policy. Some advantage to having policies. Some concern for giving points for mere existence of policy, in absence of way to evaluate policy's effectiveness or impact. Policy could have vague reference to sustainability and little impact.

Could we specify exactly what is in policy? Could cause confusion or misunderstanding; may not get approved; many investment policies reference social concerns but aren't very specific or enforced.

Where to draw the line is difficult to decide. Maybe policy doesn't mean much. Perhaps change indicator to be about *process* (rather than a committee), and leave up to institution to determine what process will look like. Avoid use of term "governance" but keep notion of *multi-stakeholder involvement* – students, faculty, staff, etc. Possible alternative credit: What about setting a "threshold" endowment to get this point? If not at the threshold (for requiring a committee), you can get credit for just having a policy. Problem: Larger schools might complain about ease of this credit for smaller schools/endowments. In many cases a policy may not lead to actual change. Careful about giving away this credit to schools just because they have small endowments. There is value in encouraging schools to look at small endowments in relation to shareholder voting record, etc. There may be other, identically performing funds that could be evaluated and switched over to. Having a process in place could help with needed background research and review of voting records. There are opportunities with small schools/endowments; just more modest. So perhaps no threshold requirement.

Potential resource – UNEP-FI's PRI (unpri.org) principles. Created indicators about process for transparency, shareholder engagement, etc. May get across different types of institutions. Look at these principles to see how they get their rating. Maybe policy could be required to align with these principles.

Conclusion – credit generally okay, especially if we word it in terms of a process and not a committee, and process includes "multi-stakeholder" involvement (which includes students). Maybe tie back to "shared governance" credit (although this is an advisory group, so don't want to use word "governance," or rather, use it in proper context).

3. **GF Credit 10 – Proactive Sustainability Investments**

QUESTION: Should we establish a minimum percentage? If so, can we define clearly the total figure that we want to take the percentage of?

Complicated. There's the issue of donor intent. College may set up separate endowment fund, such as a "social choice" fund or "green fund" (100% of which would qualify as proactive). Would a separate fund get counted in the "minimum % of endowment" requirement?

Do be careful about terminology. A "green fund" may not be seen as an endowment fund, but rather an operating fund that is donor directed. Institutions may want to substitute such a fund as covering social responsibility in all investments. What's included or not in "endowment" varies by institution. Faculty housing is included in one endowment.

"Endowment" may not be the right term. No single definition; varies by institution as to what is included. "Investment pool" would work better, and is closer to what we want. What constitutes an "investment pool"? "All assets held...etc." Would there still be a lot of discrepancy as to what that includes? People do tend to understand "investment pool" and we need to have a common understanding/ definition for this section. We could come up with a specific definition of what's included, and reference it as the standard. **Matt will define an investment pool for this section (at a high level).**

Few schools at this point would be able to say they have 1% invested in sustainability investments. Not so sure this is true. About 20% of all schools say they have clean tech or renewable energy investments.

What is the goal behind this section? What do we want higher ed. to do? Purposefully take decisions beyond a single bottom line when making choices. Want to track that people are being *purposeful* in choosing investments that affect triple bottom line. Need evidence that campus has invested with intent.

But many schools already talk in terms of having that intentionality (whether or not they really do). How would we know? Most info is collected through private surveys. Larger fundamental question is: if institution decides to invest in clean tech company for high return or other motive, should they be penalized (not earn this credit) because they didn't have intentionality? Should we look at outcome, regardless of "intent"? But intentionality does play a part; otherwise equally likely to fall out of a high-return green investment once another high-return investment appears. (Note on "rate of return": investments with lower returns may also have lower risks in many cases. Important to keep in mind.)

Conclusion – We'll try to define investment pool, and will think about making this an intensity credit. Will look into a system, policy, or process that makes sure sustainable investment is weighed with other

priorities; maybe equal weighting. Need to be very specific as to what types of investments count as “sustainable” (e.g., nuclear, timber, etc.).

4. GF Credit 8 – Endowment Transparency

QUESTION: What asset classes should we require institutions to be transparent about?

Not feasible to be transparent about all asset classes, but yes, all schools can be transparent. Schools are transparent about public equities. Discussed whether some institutions have more problems with transparency than others. Pretty even between private and public – no clear category differences in transparency. But wide differences in transparency *requirements*. Often voluntary.

What about an intensity credit? Up to 3 points for disclosing x, y, and z asset classes. Publicly traded securities are easiest (1 pt). Get you in the door. Can deal with complicated ones later. Mutual funds in equities would count – company often has disclosure of a snapshot in time of its funds. Mutual funds, public equities, etc.

- Matt and Mark will suggest some asset classes about which it makes sense to be transparent.

Might think beyond actual investments, and about investment managers and funds. Specific hedge fund may not be able to disclose, but investment manager might help get information.

Benefit of this credit is potential ability to generate conversation between individuals on campus interested in sustainability and investment folks.

5. New Credits

QUESTION: Should we add a new credit for introducing shareholder resolutions that are supportive of sustainability? Are there any other credits related to investment that should be considered for inclusion in STARS?

Shareholder resolution credit – for introducing shareholder resolutions for stocks that you own. You’d have to define what resolutions count; some may be related to sustainability; others not. Proxy voting could count, or writing letters. Maybe make part of committee responsibility (“corporate engagement”), rather than creating whole new credit. Could be an intensity question in process credit above.

Make sure schools don’t get a blank check just because they’re in a mutual fund (you can always ask for list of companies mutual fund is investing in). Different than rights as individual shareholder in a company. Typically there’s an annual ballot on governance issues. There are plenty of fund options that do file resolutions, are proactive, do negative screening, and positive investments. These can all be purchased by a college endowment. Hedge funds may present challenge for disclosure/ transparency.