

BUILDING A CLEAN ENERGY FUTURE

*The Role of Students &
University Endowments*

**SUSTAINABLE
ENDOWMENTS**

INSTITUTE



**SUSTAINABLE
ENDOWMENTS**

I N S T I T U T E

The Sustainable Endowments Institute is a special project fund of Rockefeller Philanthropy Advisors. The Institute is engaged in research, education and communication concerning college and university endowment policies. We seek to advance the alignment of shareholder practices with educational missions.



Ceres

Ceres is a national coalition of investors, environmental groups and other public interest organizations working with companies to address sustainability challenges such as global climate change. Ceres also directs the Investor Network on Climate Risk, a group of more than 50 institutional investors who collectively manage \$3.7 trillion in assets. For more information on Ceres, visit <http://www.ceres.org>.



**UNITED NATIONS
FOUNDATION**

The UN Foundation builds and implements public-private partnerships to address the world's most pressing problems, and broadens support for the UN through advocacy and public outreach.

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March 17, 2006
10:45 am–5:00 pm
United Nations Foundation
1225 Connecticut Avenue, NW, 4th Floor
Washington, DC 20036



FOREWORD

College and university endowments account for more than \$300 billion in institutional investor capital in the United States. While school trustees and investment professionals carefully weigh financial data, the risk that climate change poses for the bottom line of endowment returns is largely being overlooked. Thus, few schools have exercised their proxy votes on climate change and no schools have introduced shareholder resolutions on this vital issue.

Now, with a rapidly growing shareholder campaign on global warming, there is great potential for colleges and universities to join with other institutional investors in taking action on climate risk. Universities can also play an important role in promoting renewable energy technologies. In order to foster more engaged endowment policies at colleges and universities, leadership from students and campus organizers is crucial.

Accordingly, the United Nations Foundation, Ceres and the Sustainable Endowments Institute, invited student, nonprofit and foundation leaders from more than 30 prominent institutions to discuss improving university endowment practices related to climate change.

Building a Clean Energy Future: The Role of Students and University Endowments was convened on March 17, 2006, at the United Nations Foundation's headquarters in Washington, DC, through the generous support of the United Nations Foundation and the Energy Future Coalition.

The conference program had two parts. The morning focused on presentations to raise awareness and educate the attendees. The afternoon actively engaged participants in discussing strategies and tactics as well as in formulating an action agenda. Outcomes included the formation of a steering committee and the adoption of draft Principles for Endowment Climate Action.

Mark Orłowski

EXECUTIVE DIRECTOR
SUSTAINABLE ENDOWMENTS INSTITUTE

CONFERENCE AGENDA

10:45	Coffee and Light Refreshments
11:00	Welcome and Introductions Mindy Lubber, President, Ceres
11:20	Climate: An Opportunity for Change Tim Wirth, President, United Nations Foundation
11:45	Role of Endowments in Climate Change & Clean Energy Mark Orłowski, Executive Director, Sustainable Endowments Institute
12:30	Clean Energy and the 25x'25 Campaign Reid Detchon, Executive Director, Energy Future Coalition
12:50	Lunch & Story of Success: Stanford Aimée Christensen, Christensen Global Strategies
1:30	Campus Climate Change Leadership Sam Arons, University of California, Berkeley David Byer, Vermont Law School Billy Parish, Energy Action Liz Veazey, Southeast Climate Network
2:30	Break
2:45	Strategies and Tactics for Change Rachel Harold, Ceres
4:30	Next Steps Mark Orłowski, Executive Director, Sustainable Endowments Institute
5:00	Adjourn

CONFERENCE PARTICIPANTS

Sam Arons
Jessica Bailey
Meg Boyle
Tim Brennan
David Byer
Vincent Calvano
Aimée Christensen
Michael Cooper
Justin Dargin
John Deans
Reid Detchon
Jared Duval
Seth Fiur
David Gardiner
Appoorv Gehlot
Seth Green
Kaitlin Gregg
David Halperin
Rachel Harold
Ryan Hobert
Courtney Hull
Ben Lowe
Mindy Lubber
Liz Maw
Daniel Moon
Adi Nochur
Mark Orłowski
Billy Parish
John Pearson
Deborah Rowe
Matt Stern
Luke Swarthout
Josh Tulkin
Liz Veazey
Kathleen Welch
Tim Wirth

University of California, Berkeley
Rockefeller Brothers Fund
The Climate Campaign
Ceres
Vermont Law School
National Association of Environmental Law Societies
Christensen Global Strategies
Middlebury College
University of Toledo
College of the Atlantic
Energy Future Coalition
Sierra Student Coalition
League of Conservation Voters
United Nations Foundation
College of the Atlantic
Americans for Informed Democracy
Yale University
Campus Progress
Ceres
United Nations Foundation
Brown University
Wheaton College
Ceres
Net Impact
Columbia University
Tufts University
Sustainable Endowments Institute
Energy Action
University of Massachusetts, Boston
Higher Education Climate Action Partnership
Chesapeake Climate Action Network
USPIRG
Chesapeake Climate Action Network
Southeast Climate Network
The Pew Charitable Trusts
United Nations Foundation



CONFERENCE HIGHLIGHTS

Ceres President Mindy Lubber opened the program by offering a brief overview of how climate risk is becoming part of the mainstream discussion on Wall Street. She highlighted the success of the Institutional Investor Summit on Climate Risk in bringing together 400 Wall Street and pension fund leaders. The event, co-hosted by Ceres and the United Nations Foundation in 2005 at United Nations headquarters in New York, helped convince prominent business leaders that climate was a financial risk directly affecting their investments.

Ms. Lubber called on students and other leaders in the room to engage with university endowments so that universities could join the burgeoning coalition of institutional investors with \$3 trillion in assets, who already are members of the Investor Network on Climate Risk.

These institutional investors are pressing the SEC to require more disclosure from companies on climate risk and they are meeting with heads of Fortune 500 companies on climate as a financial and governance issue. University endowments, as prominent institutional investors, should join in these initiatives.

Climate: An Opportunity for Change

Tim Wirth, President of the United Nations Foundation, welcomed participants and spoke about the role of organizers in social change movements. At one point, he stated passionately, “The system is built in a way that makes it difficult to change despite things being obvious.... I’m an organizer, many of you are too. We need to figure out how to move things, get people to see what is obvious to us and then act on it.”

Mr. Wirth went on to highlight the historic role of leaders and organizers in bringing about change in the civil rights movement, in creating a consumer rights movement and in helping end apartheid in South Africa. In the case of South Africa, university investments were the key leverage point that students

“We need to figure out how to move things, get people to see what is obvious to us and then act on it.”

were instrumental in activating. He then made the connection to climate change and the importance of visionary leaders to help move our country forward from its current impasse.

Mr. Wirth outlined the impressive progress that Ceres has made in engaging with large institutional investors such as major public pension funds in California, New York, Connecticut and other states. To engage universities in a similar way will require organizing on a campus-by-campus basis.

Students have a sense of outrage about the status quo. It is this moral outrage that can galvanize support for change. Mr. Wirth closed by asking students and others to get involved in helping university endowments become leaders on climate change.

Role of Endowments in Climate Change & Clean Energy

How many
of the world's
100 largest
economic
entities are
countries?

Following Mr. Wirth's presentation and a brief discussion period, Mark Orłowski, Executive Director of the Sustainable Endowments Institute, addressed the participants. He challenged the audience to guess how many of the world's 100 largest economic entities are countries. Guesses from participants ranged widely from the actual proportion—only 49 of the world's largest economies are countries, 51 are corporations.


In this context, Mr. Orłowski discussed the tremendous power that corporations have in our economy and society. He connected that concept to the significant ownership stake that many colleges and universities hold in most public corporations through the more than \$300 billion invested by their endowments.

Mr. Orłowski outlined the existing shareholder activity at several universities including Dartmouth College, Harvard University and Northwestern University. In recent years, both Dartmouth and Harvard have voted unanimously in favor of shareholder resolutions on climate

change and energy efficiency at corporations in which their endowments invest. Students are active members of the shareholder advisory committees at these schools.

In relation to proactive investment policies at schools, Mr. Orłowski pointed to Northwestern University, which has recently committed to investing several million in a cleantech investment fund.

A lively Q&A with Mr. Orłowski evolved into a broader discussion about the roles of diverse stakeholders (students, faculty, alumni, staff and others), the lack of transparency in university endowment investments and the need for a concrete toolkit to help students with strategies and planning.



Data suggest the benefits of focusing messages on direct benefits such as clean air, clean water and public health, rather than emphasizing climate change.

Clean Energy and the 25x'25 Campaign

Clean Energy Coalition Executive Director Reid Detchon shared his experience in bringing together diverse constituencies such as the agriculture community and those residing in the heartland. Mr. Detchon discussed the importance of meeting different groups at their own levels of understanding. Specifically, he shared polling data that suggested the benefits of focusing messages on direct benefits such as clean air, clean water and public health, rather than emphasizing climate change.

Mr. Detchon went on to discuss the early stages of planning and then the recent creation of the 25x'25 Campaign in March 2006. More than 70 farm organizations and others came together to launch the 25x'25 Campaign with the goal of obtaining 25 percent of our county's energy needs from renewable sources by the year 2025.


He concluded his presentation by emphasizing that we are not alone and that groups working on energy and global warming are gaining more momentum. Also, new trainings on positive messaging are being offered thanks to the generous support of the Rockefeller Brothers Fund.

Success Story: Stanford University

Aimée Christensen, President of Christensen Global Strategies, is a graduate of Stanford Law School. She presented a case study of her endowment-related efforts at Stanford as a student serving on the university's Advisory Panel on Investment Responsibility (APIR). At the time, the APIR had been operating for more than 25 years; however, Ms. Christensen was the first to identify the need for Stanford to address global warming in its endowment portfolio.

Working with other members on the APIR, Ms. Christensen did background research and drafted a well-reasoned proposal documenting why Stanford needed a shareholder voting policy on global warming. The proposal was then brought to the Stanford board of trustees, which adopted the proposal as global warming shareholder voting guidelines. These became the first-known voting guidelines on global warming adopted by a university in the United States.

Stanford needed a shareholder voting
policy on global warming...



Sam emphasized the importance of not having a rigid plan...

Campus Climate Change Leadership

After lunch, David Gardiner of David Gardiner & Associates moderated a lively panel on leadership for campus climate change. Panel members spoke briefly about the challenges of their advocacy work and responded to questions from David Gardiner. Then, the panel entered into a more open discussion among all participants. Highlights included:

- **Sam Arons**, a graduate student at UC Berkeley, spoke about his experience working with UC Berkeley administrators on sustainable investing and his outreach efforts to the UC Office of the President. Sam emphasized the importance of not having a rigid plan, but instead providing the trustees with several proposals so that they could pick and choose among various options. This approach is more likely to elicit trustee involvement than presenting them with an all or nothing choice.
- **David Byer**, a third year law student at Vermont Law School, explained how the Student Bar Association created a Shareholder Advocacy Committee. The first of its kind in the country, the committee is empowered to engage directly with senior management at corporations and, when necessary, file shareholder resolutions on climate change and other environmental issues.
- **Billy Parish**, Coordinator of the Energy Action Coalition, spoke about the broader student climate movement and the critical importance of meeting students where they are. Specifically, what are they interested in? What actions do they want to take? Organizers should create packaged campaigns and resource toolkits after determining students' needs. For example, Energy Action co-wrote with the Apollo Alliance a report entitled "New Energy for Campuses,"

Organizers should create packaged campaigns and resource toolkits after determining student's needs.

which highlights 40 case studies on campus best practices. He noted that while it was only published a few months ago, it has been downloaded 15,000 times.

- **Liz Veazey**, Campus Coordinator of the Southern Alliance for Clean Energy, shared her experience in making national subjects resonate with local audiences. In the South, mountain top removal mining is becoming an increasing focus of concern due to its negative environmental and social consequences. In this case, environmental and public health problems are motivating action by young people. Many students like to have a choice of options. Educating them on a range of issues and providing multiple actions is crucial. Climate impacts on regional areas are also engaging—for example, the impact of increased severity and frequency of hurricanes in the South.



Why is it strategic to work on
changing endowment policies?

Where do we start?

How can we be effective?

Strategies and Tactics for Change

In leading the group discussion on strategies and tactics for change, Rachel Harold of Ceres opened by asking the following questions: Why is it strategic to work on changing endowment policies? Where do we start? How can we be effective?

The discussion then transitioned into drafting basic standards for endowment policies and practice to build a clean energy future. The resulting Principles for Endowment Climate Action includes five main guidelines:

- Increasing transparency in endowment investments
- Actively voting on shareholder resolutions
- Committing to renewable energy investments
- Engaging companies on climate
- Establishing a green campus fund

After significant discussion, the consensus was that the draft Principles for Endowment Climate Action offered a solid framework for future efforts.

Participants then split into groups of six to eight people each to work on different simulations. Scenarios included different challenges relating to endowment investments for students at small colleges or at large universities. This exercise helped everyone explore the unique challenges facing students when they interact with university officials and trustees. In follow-up discussions, several participants remarked that the simulations helped them gain a better grasp of the issues at hand.

Action Agenda

Mark Orłowski closed the program by leading the group in a brainstorming session to chart an agenda for action. Participants chose to form a Steering Committee to help coordinate future efforts together.

Recommendations for creating toolkits and undertaking research to further educate students was also discussed, as was the need for financial resources in order to conduct research and help coordinate future activities.

Building a Clean Energy Future: The Role of Students and University Endowments concluded on schedule with high energy and enthusiasm for moving forward together.

Steering Committee to
coordinate future efforts.

EVALUATION FEEDBACK

Feedback received both verbally and through evaluation forms was overwhelmingly positive. Twenty-two evaluators provided quantitative and qualitative feedback. Ten respondents chose to identify themselves.

We sought constructive feedback and received various suggestions for improvement (included below).

The following is a brief summary of findings from the quantitative portion of the evaluation form. Participants were asked to use a scale from 1-5 (5 being the highest):

Before coming to this strategy meeting, how familiar were you with the topics discussed?

Summary: The data indicates that most participants were somewhat familiar with the topics discussed. The median answer was 3.25 with only four people responding with a 2 or less and only two people answering 5.

How useful were the background materials that were circulated before the meeting?

Summary: Overall, the background materials provided were rated highly (the same materials are also included this report).

How much did this meeting increase your interest in pursuing efforts to change endowment practices around climate/clean energy?

Summary: The median score was 4.5, with all but one respondent answering either 4 or 5.

Do you feel prepared to return to your campus/organization and launch activities on endowments and climate/clean energy?

Summary: The median score was 4, with most participants answering either 4 or 5. Five participants provided a rating of 2 or 3.

*Great people, well-structured day,
inspiring speakers—took a complex
issue and made it conversational.*

Tremendous group. Diverse, positive, well recruited.

The following are select comments received when participants were asked about their overall impressions:

I liked the amount of expertise, enthusiasm and diversity.

Great to have a lot of time to discuss ideas and strategize—also nice to have inspirational/background talks at the beginning of the day. Way to stay on schedule—well organized—good food, bravo!

Very open discussion and well facilitated.

Lots of good discussion and brainstorming, strong commitment to move forward.

Great people, well-structured day, inspiring speakers—took a complex issue and made it conversational.

I liked the energy as well as the disciplined approach. Very informative.

Tremendous group. Diverse, positive, well recruited.

It was very interactive and the student leaders were inspired and interactive. I also think Mark and Ryan did a great job of setting up the agenda and keeping it running on time without discouraging the energy.

The following are select comments received when participants were asked about what they would change:

Wish I had more time to meet more of the participants. Could do a two-day conference (fewer hours each day) and there would be more networking time.

More time for personal networking.

Would have liked more time to say what specific problems I've encountered and ideas to overcome them.

While not necessarily needed at this meeting, in future meetings have more training.

With the amount of experienced people in the room, I would have spent less time educating and more time planning.

More linking up various campaigns.

We could have had more diverse players (faith, farmers, etc.), otherwise great organization and energy.

Perhaps have more small-group discussion or break out sessions throughout the day.

a two-day conference?


PROGRESS REPORT AND ACTION AGENDA

Judging from the encouraging feedback, the conference was a success in both educating and motivating participants as well as in training student leaders.

Since the conference in March, there have been a number of exciting developments:

- In May, the Sustainable Endowments Institute released a groundbreaking survey of shareholder practices among the 331 largest university endowments. The survey release led to detailed articles in *USA Today*, *Chronicle of Higher Education*, *Inside Higher Ed* and *Chronicle of Philanthropy*.
- In the spring, the Sustainable Endowments Institute also secured funding from the Rockefeller Brothers Fund and the Energy Action Coalition to help support the Institute's research and advocacy efforts.
- Ceres and the Sustainable Endowments Institute created a concept paper seeking financial support for collaboration on the Endowment Climate Action Project. The partnership would draw on the synergy between Ceres (engaging pension fund leaders in the Investor Network on Climate Risk) and the Sustainable Endowments Institute (initiating campus action on endowments and climate change).
- One direct outcome of the conference was the formation of a steering committee. Convened by Ceres and SEI, it is primarily comprised of student leaders. The steering committee already held several conference calls in spring 2006 and is scheduling more calls in fall 2006.

In May, the Sustainable Endowments Institute released a groundbreaking survey of shareholder practices among the 331 largest university endowments.



Research & publish comparative data
Raise awareness
Educate
Establish platform
Develop toolkit

Participants in Building A Clean Energy Future designated the following five areas as key steps in an action agenda:

- Research and publish comparative data on leading schools' endowment activities.
- Raise awareness through targeted media campaigns that reach the campus, business and higher education press.
- Educate student and university leaders through on-campus workshops and presentations.
- Establish a simple direct communication platform for sharing information and best practices among universities.
- Develop a comprehensive "toolkit" offering effective strategies and tactics.

To successfully undertake such projects will require organizational commitment and funding. It is encouraging that some financial resources have been committed to advancing these objectives. However, finding new sources of funding, strengthening existing partnerships and developing innovative collaborations will all be needed to achieve widespread endowment engagement on behalf of building a clean energy future.

ENDOWMENTS: BACKGROUND INFORMATION

What is an endowment?

An endowment is a fund that holds its principal in perpetuity, and only distributes its income. Endowment investments have dual goals: growth of principal (capital appreciation) and generation of income. All or part of the income provides for continuing support of the endowed organization (e.g., educational institution, foundation, religious organization).

What is the scope of university endowment value?

Currently, 746 colleges and universities have combined endowment assets of more than \$298 billion. According to the National Association of College and University Business Officers, some of the universities with the highest estimated holdings include Harvard (\$25 billion), Yale (\$15 billion) Stanford (\$12 billion), University of Texas (\$11 billion) and University of California (\$5 billion). In fact, 56 schools have endowment assets of \$1 billion or more. Over 334 schools hold endowments of over \$100 million each and hundreds more schools have endowments in the tens of millions of dollars each.

Who controls a university's endowment?

Official responsibility for the endowment lies with the fiduciaries—in most cases, the university's board of trustees is legally responsible for the management, investment and distributions of funds. The concept of fiduciary responsibility has traditionally guided those who make the decisions related to endowment investments. For almost two centuries, the “prudent man” guideline for fiduciary responsibility in investments has meant maximizing financial return while minimizing financial risk. This generally accepted understanding of fiduciary responsibility has avoided dealing with externalities like environmental matters. Thus, while trustees may be personally concerned with the environment, in their fiduciary role they have tended not to link such issues with the university's investment decisions or its shareholder proxy votes.

“prudent man”
guideline for fiduciary responsibility

How do universities make endowment investment decisions?

At most schools, endowment investments are kept confidential and only made available to trustees and senior administrators. Usually the board of trustees' investment committee evaluates investment options and sets policies for endowment management. Senior administrators, including the vice president for finance, treasurer and investment officer, provide day-to-day oversight of endowment investments. However, the actual investment decisions are usually outsourced to professional investment management firms and/or mutual funds.

Schools that own stocks in corporations
have shareholder rights
and responsibilities.

Why is university endowment income important?

Largely funded by alumni contributions, endowment income helps pay for part of the operating budgets of colleges and universities. Endowments have soared in value in recent years, sometimes surpassing tuition as a source of income. Endowment income can pay for a significant portion of the cost of student education, thus minimizing tuition increases, while enhancing resources.

How do endowment investments link universities with the global economy?

Endowment investment decisions are an expression of universities' financial values and priorities. Schools that own stocks in corporations have shareholder rights and responsibilities, including the right to engage in constructive dialogue with corporate executives as well as to vote and introduce shareholder resolutions, which are included in corporations' annual proxy statements.

What are shareholder resolutions?

Shareholder resolutions provide a formal process for shareholders to request information and/or policy changes in corporations in which they invest. Shareholders that have held at least \$2,000 in company stock for a minimum of one year may submit a resolution for consideration by all shareholders of the company, most of whom vote by proxy. There are hundreds of shareholder resolutions submitted every year dealing with environmental, social and governance issues. Resolutions on climate change have included requests for disclosure on energy efficiency measures, development of renewable energy resources and feasibility of adopting/implementing targets for reducing greenhouse gas emissions.

How is proxy voting handled by most universities?

Recent research by the Sustainable Endowments Institute indicates that fewer than five percent of universities with large endowments make their own proxy voting decisions. Among leading schools with active shareholder decision-making on campus are Brown, Columbia, Dartmouth, Harvard, Swarthmore and Williams. In contrast, many schools delegate proxy-voting decisions to the same outside firms that they use for investment management. These firms have a strong predisposition of dealing with the proxy-voting process by simply voting with corporate management on all environmental and social shareholder resolutions.

Fewer than five percent of universities with large endowments make their own proxy voting decisions.

Why is it important for universities to vote actively on shareholder resolutions?


By taking an active decision on its proxy votes, universities exercise their voice on corporate policy positions. Without such action, corporate management may assume that university shareholders do not care about the proposed environmental, social and governance policies. What message does it send when your university fails to vote on resolutions concerning energy efficiency, development of renewable energy resources or climate change? Furthermore, including student participation in proxy voting decisions provides educational opportunities to the campus community.

Why are so few universities actively participating in shareholder voting decisions?

Lack of interest and involvement by students, faculty, and alumni on endowment investment issues tends to reinforce administrative inertia in maintaining the status quo. In most cases, when students and their supporters take the initiative on shareholder issues, they have achieved victories.


How can we encourage universities to become engaged shareholders?

The March 17 meeting at the UN Foundation helped generate exciting ideas for empowering university endowments to become leading shareholders in building a clean energy future.

The background of the slide features a close-up, shallow depth-of-field photograph of green leaves and a pencil tip. The leaves are vibrant green and slightly out of focus, while the pencil tip is sharp and positioned in the lower right quadrant. A semi-transparent white rectangular box is overlaid on the image, containing the text.

Including
student
participation
in
proxy
voting
decisions

provides educational opportunities
to the
campus
community.



CLIMATE RISK: BACKGROUND INFORMATION

Why should investors be concerned about climate change?


Global climate change poses both major risks and significant investment opportunities for shareholders. The magnitude that climate change effects will have on the entire global economy dwarfs other environmental risks. This is especially true in the long term, where damage from climate change will likely impose widespread economic costs on many sectors, including agriculture, forestry, and water. Also, for certain sectors, climate risk may be substantial and “material” with substantial impact on shareholder value.

What are the financial risks associated with climate change?

Companies will be exposed to different types of risk depending on their sector and geographic location. Broadly speaking, climate risk can be divided into the following five categories:

- **Regulatory risk:** Efforts by governments at the international, national and state levels to regulate GHG emissions will have direct implications for the industry sectors and businesses with the highest emissions. The Kyoto Protocol, as well as the advent of the Emission Trading Scheme (ETS) in the European Union in January 2005 makes this the most potent risk faced by investors. In addition, in the absence of federal legislation in the United States, local and regional regulation is becoming more prevalent. The following sectors are most likely to face significant regulatory risk due to their high GHG emissions: electric power, manufacturing, oil and gas, and transportation.
- **Physical risk:** Some sectors and businesses will face direct consequences from the physical impacts of climate change, including droughts, floods, storms and sea level rise. Sectors such as agriculture, fisheries, forestry, health care, insurance, real estate, tourism and water may be particularly exposed because of their dependence on the physical environment, human health, water and weather—all of which are now less predictable.

Climate change dwarfs
other environmental risks.



Companies
that take
positive and
proactive
measures
to mitigate
climate risk
may create a
competitive
advantage.

- **Litigation risk:** Companies could face risk from lawsuits. For instance, in an initiative led by New York Attorney General Eliot Spitzer, eight states and New York City have filed an unprecedented lawsuit against five of America's largest power companies, demanding that they cut carbon dioxide emissions. Similar to the lawsuits faced by the tobacco and asbestos industries, there is a possibility that companies and sectors responsible for large amounts of GHG emissions could be liable for damages associated with the physical effects of climate change (e.g., flooding, severe weather damage, crop failures, etc).

- **Competitiveness risk:** Companies that take positive and proactive measures to mitigate climate risk may create a competitive advantage for themselves relative to the rest of their sector. These advantages may take the form of lower costs and higher profit margins and/or enhanced reputation and customer loyalty.

- **Reputational risk:** Companies that are viewed negatively with respect to climate change (either for their politics or their pollution) may face backlash


from consumers in markets where the public is concerned about climate change. This is especially true in highly competitive sectors such as automobiles and oil and gas.

Why should college and university endowments take action on climate risk?

Fundamental changes must be made in the way we use and produce energy if we are to limit the downside risks posed by climate change. Endowment trustees, with their long-term investment horizon, have a particular duty to address this challenge. If these trustees do not look out for the lasting economic and environmental interests of their beneficiaries, short-term consumer and executive decisions will rule the day, locking in "business as usual" investment strategies that extend and compound the damage. College and university endowments have the potential to be key allies in the effort for climate change solutions.

What are other investors doing?

State and city treasurers, labor pension fund leaders, and foundation leaders have formed the Investor Network on Climate Risk (INCR). The INCR issued a 10-point "Call for Action" at the 2005 Institutional Investor Summit on Climate Risk at the United Nations headquarters. It urges pension and endowment trustees, fund managers, securities analysts, corporate directors and government policymakers to increase their oversight and scrutiny of the investment implications of climate change.



“Business as usual” investment strategies extend and compound the damage.

Investors have:

- Changed their own policies, including \$450 million of new direct investment in clean technologies.
- Leveraged their clout as shareholders to persuade more than two dozen Fortune 500 companies in sectors with significant greenhouse gas emissions to boost their actions and disclosure about climate risks and to take steps for mitigating those risks.
- Filed a record 30 global warming shareholder resolutions with North American companies in 2004 and received record high voting support—as high as 37 percent—for those resolutions.
- Quadrupled the number of investors participating in the U.S.-based Investor Network on Climate Risk (INCR) and increased by 450 percent—from \$600 billion to \$2.7 trillion—the collective assets of INCR members between 2003 and 2005.
- Quadrupled the number of investors and their assets participating in a European-based initiative known as the Carbon Disclosure Project.
- Pressed the Securities and Exchange Commission for improved corporate disclosure.
- Urged Wall Street investment managers to improve their research and integration of climate risk issues in their financial analysis of companies and industry sectors.

Increased awareness and corporate disclosure over the past few years illustrates that there is far greater acceptance that climate risk is embedded in virtually every major investment decision that companies and investors make. Yet much more remains to be done, especially within the endowment portion of the investor community.

Climate risk is embedded in virtually every major investment decision that companies and investors make.



ANSWERS TO COMMON QUESTIONS & OBJECTIONS

Is shareholder engagement legal for institutional investors?

A recent report by Freshfields Bruckhaus Deringer, the world's third largest law firm, emphasizes the importance of environmental, social and governance (ESG) issues to the investment decision-making process. The 2005 report was prepared for the United Nations Environment Programme Finance Initiative. Paul Watchman, Partner at Freshfields Bruckhaus Deringer and senior author of the study, commented: "The report confirms that a number of the perceived limitations on the integration of ESG issues into investment decision-making are illusory. Far from preventing the integration of ESG considerations, the law clearly permits and, in certain circumstances, requires that this be done. This legal interpretation has far-reaching implications for the institutional investment community worldwide."

Isn't our fiduciary duty as university trustees limited to just investing the endowment for maximum profit with the least risk?

The "Prudent Man Rule" is the fundamental principle that has guided trustees, money managers and other fiduciaries since the 1830s. In the case of Harvard College versus Amory, Massachusetts, Supreme Court Justice Samuel Putnam declared, "Those with responsibility to invest money for others should act with prudence, discretion, intelligence, and regard for the safety of capital as well as income." This guideline reinforces the need for fiduciaries to recognize the effects of environmental, social and governance issues on the type of long-term investments made by endowments. Anything less risks being just a myopic focus on short-term results. Shareholder engagement enables trustees to fulfill this aspect of their fiduciary duty as prudent men and women.

Trustees are often eager to meet with students.

What other universities take an active role as shareholders?

A growing number of schools have taken active roles as shareholders by creating advisory committees on shareholder responsibility. Schools that currently have student participation on committees considering proxy votes include Bard, Barnard, Brown, Columbia, Dartmouth, Harvard, Penn, Stanford, Swarthmore, Vassar and Williams. Furthermore, Swarthmore College has been a leader in direct dialogue and engagement with corporations by filing several shareholder resolutions.

Won't shareholder engagement hurt our endowment investment returns?

No. Shareholder engagement does not involve any changes in investments, therefore, it does not impact endowment investment returns. The goal of shareholder engagement is to seek substantial improvement in corporate policies through dialogue with corporate management. The university endowment's position of power with the company comes through its status as a shareholder. If the endowment sold its shares in a company, it would lose its voice as a shareholder and be unable to influence that company's policies.

Won't shareholder engagement interfere with our investment managers' strategies?

No. Investment managers are tasked with finding the best investments and shareholder engagement does not involve any changes to their investment strategies. Rather, shareholder engagement capitalizes on the rights and responsibilities that universities have by virtue of owning corporate stocks. By engaging with a company, an endowment is not buying or selling its shares, it is simply opening a dialogue with the senior management and board of directors. While more formal than dialogue, the filing of shareholder resolutions adheres to the same principles about engagement.

The university trustees and administrators are very busy and do not have time to handle proxy voting. How will this work?

While the trustees retain the fiduciary responsibility for university endowments, the advisory committee on shareholder responsibility can handle the research and due diligence on upcoming shareholder resolutions requiring a vote. The committee can then present their recommendations to the trustees in a succinct report that outlines the reasoning behind the recommendations. At many schools with committees, the trustees spend a short time handling proxy voting and are eager to meet with students and other committee members to discuss their recommendations. Furthermore, the university should not have to allocate significant staff time because shareholder responsibility committees rely on volunteer members who do their own research and write their own reports. For example, schools such as Swarthmore, Vassar and Williams all operate successful committees without needing to employ additional staff.

Are there any precedents of shareholder engagement by other institutional investors?

Engaged shareholders represent a broad spectrum of institutional investors.

Mutual Funds: In response to an SEC ruling in 2003, all mutual funds and investment managers are now required to have proxy voting policies and to disclose how they vote on each proxy question.

Private and Public Pension Funds: These funds have an impressive record as engaged shareholders—not only in voting their proxies, but also, in some cases, by initiating dialogues with corporate managers and by sponsoring shareholder resolutions.

Public pension funds that have taken leading roles in introducing shareholder resolutions include those from California, Connecticut, Maine, New Mexico, New York City, New York State, North Carolina, Oregon and Vermont. Private pension funds are governed by the Employee Retirement Income Security Act of 1974 (ERISA). An ERISA interpretive bulletin affirms the rights of fiduciaries to utilize proxy voting and other forms of shareholder engagement to protect the value of their investments: “The fiduciary act of managing plan assets that are shares of corporate stock includes the voting or proxies appurtenant to those shares of stock.”

Foundations: Some leading foundations including the Boston Foundation, the Ford Foundation, the Nathan Cummings Foundation and the Rockefeller Brothers Fund have adopted active proxy voting policies.

Religious Institutions: The Interfaith Center on Corporate Responsibility (ICCR) is the leading coordinator of shareowner engagement for its 275 faith-based institutional investors. Its members include national denominations, religious communities, pension funds, endowments, hospital corporations, economic development funds and publishing companies. For the 2006 proxy season, ICCR members filed 256 shareholder resolutions.

Bard
Barnard
Brown
Columbia
Dartmouth
Harvard
Penn
Stanford
Swarthmore
Vassar
Williams

The issues are too complex and we do not have the expertise to handle voting.

In most cases, shareholder resolutions are quite straightforward—they are filed by other shareholders and required to be 500 words or less. Proponents of resolutions are aware that an overly technical resolution will confuse other investors and reduce support for the resolution. Moreover, subscription services are available that offer in-depth background reports on each subject as well as on each specific resolution.


In some cases, shareholders are victorious with as little as 5 to 10 percent of the vote.

Even if our university were to become an engaged shareholder, our votes won't make a difference.

Actually, they will. Every year, through filing shareholder resolutions, many investors achieve the objectives outlined in their resolutions. In some cases, shareholders are victorious with as little as 5 to 10 percent of the vote. In order to be eligible for future filings, a shareholder resolution only needs to receive 3 percent of the vote the first year. In reality, it is shareholder disengagement that gives rise to ineffectiveness. If those in charge of the endowment fail to vote and just outsource shareholder decisions to money managers, what message are they sending to the university community?

Won't the alumni community and university donors object?

Not likely. In 2005, the Goldman Sachs Global Markets Institute commissioned a survey of the perceptions of university endowment donors. They found that 75 percent of donors are in favor of endowment disclosure and transparency while only 21 percent would prefer to allow universities the “freedom to invest in funds that do not disclose which companies they invest in.” Anecdotally, many prominent alumni and university trustees have commented that they are excited about how shareholder responsibility committees offer a unique educational opportunity. They see shareholder engagement as providing an effective way for the university to align its endowment investments with campus policies and values.



PRINCIPLES OF ENDOWMENT CLIMATE ACTION

Transparency in Endowment Investments

In accordance with the academic tradition of fostering a free flow of information, universities should apply similar openness to endowment investments. Specifically, a list of endowment portfolio holdings should be easily accessible online—available to all university community members and alumni. Furthermore, universities' proxy voting records should also be made available online in a timely fashion. This information provides the foundation for constructive dialogue about clean energy investment opportunities and shareholder voting priorities.

Active Voting on Climate Change Resolutions

As investors, university endowments have an opportunity and a duty to actively consider, as well as vote on, climate change and other shareholder resolutions. Engaging the campus by forming a shareholder responsibility committee will allow the university to include students, faculty and alumni in research and discussion of important corporate policies on climate change. In addition, the committee offers significant educational opportunities at the intersection of policy, business and sustainability.

Commitment to Renewable Energy Investment

Since endowments are comprised of diversified investments, universities should seek further portfolio diversification by investing in renewable energy funds. These funds seek to maximize returns to investors while simultaneously spurring innovation in the development of renewable energy technologies.

Engage with Companies on Climate

Universities are substantial investors, and as such can be influential in improving corporate policies concerning climate change and energy efficiency. Through direct dialogue with corporate management and the filing of shareholder resolutions, universities should take a leadership role through engagement and active ownership.

Establish a Green Campus Fund

To encourage innovative sustainability projects on-campus, universities should establish a green campus fund. The fund should make low-interest loans to proposed campus sustainability projects that offer educational, environmental and financial payback.



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