College, University E&Fs Incorporate ESG Approaches in Response To Stakeholders

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Key Takeaways

- Decisionmakers' responsibility regarding E&F investments remains grounded in fiduciary duty
- Recent events suggest an evolution in fiduciary considerations to include additional financial and non-financial risks and rewards
- Those considerations may provide a roadmap to institutions seeking to integrate ESG approaches into E&F management

More than a decade ago, students highlighted climate change as they sought to influence investment policies and portfolio composition of their college and university endowments and foundations (E&F). Over many years, similar efforts resulted in many cases in E&F decisionmakers choosing to divest holdings in fossil fuel companies.

The responsibility of decisionmakers regarding E&F investments remains firmly grounded in fiduciary duty. Recent events, news reports and the institutions' own communications may suggest an evolution in fiduciary considerations to include additional financial and non-financial risks and rewards. In addition, those considerations may provide a roadmap to other institutions seeking to integrate environmental, social and governance (ESG) approaches into E&F management.

A Look Back Offers a View of the Future

During the virtual 2021 spring commencement on May 1, University of Michigan President Mark Schlissel stressed the effectiveness of students' response to COVID-19. He said the worldwide response to climate change must be similar in nature and stature.

He emphasized that student activism made a difference in contributing to the Board of Regents' March 2021 decision to discontinue the University's investments in fossil fuel companies.

In reporting his remarks, the *Michigan Daily* cited comments of administrators dating to 2005 and noted, "Schlissel's statement demonstrated a noteworthy departure from the administration's consistent opposition to adjusting its investment portfolio. The University has traditionally taken the stance that the policy around its endowed funds should only be revised when the investments may not yield an adequate financial return or are incompatible with U-M's mission, not based on community input."[1]

This year the University of Michigan Regents set a policy to discontinue and avoid additional investments of its endowed funds in fossil fuels. The decision differs from a full divestment because doing so would require the University to sell its current investments in fossil fuels.

The policy further directs funds towards renewable energy sources. The Board of Regents set the goal of having a net-zero carbon emissions endowment by 2050, the first American public university to adopt this set of commitments, the *Michigan Daily* reported.

Quite a change. The University of Michigan is just one example, extremely well documented by the campus's own news reporting.

The push nationwide for fossil fuel divestment dates at least to 2013. Students at about 300 colleges across the country expressed concerns about the effects of greenhouse gas emissions (GHG) that deplete the earth's protective ozone layer, contributing to the negative consequences of increasing global temperatures.

They borrowed "a strategy that students successfully used in decades past. In the 1980s, students enraged about South Africa's racist Apartheid regime got their schools to drop stocks in companies that did business with that government. In the 1990s, students pressured their schools to divest Big Tobacco."[2] Through advocacy and engagement, they encouraged fossil fuel divestment from the E&Fs of their colleges and universities.

The idea for the divestment campaign is often attributed to an article in Rolling Stone by climate activist Bill McKibben.[3] Thanks to some successes achieved in the fossil fuel divestment campaign, the effect was to tip constituents of other stakeholder communities that they, too, could have a voice in influencing the ways an institution's assets are invested.

One effect is an increased influence of ESG considerations being addressed within E&F investment approaches. Boards of regents and trustees, academic and professional staffs, local and international communities—including students—and donors are encouraging increased integration of ESG in investment policies according to news reports, events, and the E&Fs own communications.

The Evolution Starts at Home

Nothing helps to drive change quite as effectively as a commitment from the top. Yale University became one of the world's first universities to commit to reducing its GHG emissions in 2005. It pledged to reduce its carbon output 43 percent compared with that year's emissions. Last year Yale reached the goal despite significant growth in campus population and square footage in the intervening time.[4]

This year Yale pledged to achieve zero actual carbon emissions — that is, driving carbon emissions to zero without having to purchase carbon offsets — by 2050. The university expects the campus to reach net zero carbon emissions by 2035: "zero" emissions after factoring offsets and other campus emissions reductions.

Yale also announced an initial list of fossil fuel companies now ineligible for investment by the Yale endowment, and provided an update on the Planetary Solutions Project, a campus-wide initiative.

"With the expertise we have at Yale, we have a responsibility to drive breakthroughs," Provost Scott Strobel said.

At Fordham University in April, the drive for change had a distinctly academic tone. The Fixed Income Analysts Society Inc. (FIASI) and Fordham University's Gabelli School of Business announced the winners of three undergraduate and graduate student research papers, as part of the first annual student research competition on ESG-focused investments and innovations. In collaboration with the University's Center for Research in Contemporary Finance and the O'Shea Center for Credit Analysis and Investment, FIASI and the Gabelli School sponsored presentations of the three winning research papers.

The University of Iowa (UI) took a different approach through a public private partnership (P3).[5] The P3 started with a $1.165 billion upfront payment from a collaborative involving Paris-based Engie and investment firm Meridiam. In exchange for that lump-sum payment, the UI partner landed 50 years of secured income as the campus' utility system operator.

UI officials said they expected to pull $15 million annually for campus-generated strategic initiatives. In June, campus administrators identified seven projects to receive a total $12 million in funding from the partnership-enabled endowment. The approved projects—ranging in financial commitments of $113,768 to $4 million over two to three years—focus on research endeavors, student success initiatives, and equity issues.

Donors Take a Prominent Role Advancing ESG issues

College and university donors typically have the option of directing allocation of their contributions to causes that are important to them. In recent years, donors choosing to advance ESG issues through their donations have caught media attention.

Most notable may be the donations of billionaire philanthropist MacKenzie Scott, who announced a third round of charitable gifts in June 2021, comprising $2.7 billion targeted to 286 organizations. The list includes 31 colleges and universities serving people of color and other underserved communities.[6]

Through her contributions, Scott seeks to broaden access to higher education for underrepresented students, as well as advocacy organizations focused on helping those students succeed. *Inside Higher Ed* reported that the multimillion-dollar gifts "will allow community and regional colleges to build endowments, fund new student programs and jump-start internal fundraising efforts."[7]

The donations come at a critical time, especially for smaller colleges and universities, as they seek to navigate the challenges in education presented by COVID-19. While philanthropic giving to education increased by 7.7 percent in 2020, after adjusting for inflation, according to the Lilly Family School of Philanthropy, about three-quarters of annual giving comes from individuals, and the uptick in individual giving during 2020 was almost entirely driven by Scott's donations.

In 2013, North Carolina State University in Raleigh received a $50 million pledge from a foundation established by a 1931 graduate, one of the largest in the school's history.[8] The donation came with two conditions. One was that money donated must support "need-blind, merit-based scholarships for undergraduates."

The second condition was 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.

The money will be invested in responsible ways under seven general principles: 1) environment and natural resources; 2) labor rights and supply chain management; 3) human rights; 4) community impact; 5) product quality and safety; 6) corporate governance; and 7) companies that don't test on animals for nonmedical purposes—all key tenets of ESG investing approaches.

Another Community Raises Its Voice: The Community

Whether a college or university is reallocating dollars from divestments or new assets received through partnerships or donations, many institutional investors are considering re-weighting their investment portfolios to acknowledge broader concerns in addition to financial returns. The effort can prompt a series of decisions about how to invest funds. The opportunities include "close-to-home" investments that can benefit local communities in ways that align with institutional goals.

"Reinvestment presents a unique opportunity for universities to partner with their local communities to promote equitable economic development and energy democracy," reports Community-Wealth.org.[9] "In particular, campaigns' embrace of community investment would strengthen the crucial role that divestment movements play in fostering long-term system change."

In a report from *Higher Ed Dive*,[10] Ken Redd, senior director of research and policy analysis at the National Association of College and University Business Officers, predicted that organizations, including colleges, will put their money to work on issues of racial and social justice.

Institutions have invested in programs and policies to address the country's history of systemic racism. The changes suggest colleges are thinking differently about how these issues affect their portfolios.

"Investment decisions aren't the vehicle to make a statement on societal issues, as a rule," said University of Vermont President Suresh Garimella. "This one's different ... because it's very much tied to our reputation and our brand."

Institutions have been bringing ESG considerations into their investment strategies by rethinking the types of industries to which they allocate investments. For example, some schools are placing more emphasis on how industrial sectors and firms treat the environment, society, and their workforces; the essential elements of ESG. Their acknowledgement of the value of non-financial factors in gauging a business's future performance appears to have strengthened during the pandemic.

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FOOTNOTES:

1. *https://www.michigandaily.com/news/how-student-activism-and-fossil-fuel-disinvestment-challenge-the-perspective-of-an-independent-endowment/*
2. *https://www.npr.org/2013/05/10/182599588/college-divestment-campaigns-creating-passionate-environmentalists*
3. *https://www.rollingstone.com/politics/politics-news/global-warmings-terrifying-new-math-188550/*
4. *https://news.yale.edu/2021/06/24/yale-sets-new-carbon-reduction-targets-takes-divestment-steps*
5. *https://www.thegazette.com/higher-education/university-of-iowa-picks-7-projects-for-12m-in-public-private-partnership-funding/*
6. *https://theconversation.com/how-the-billions-mackenzie-scott-is-giving-to-colleges-attended-by-students-of-color-will-help-everyone-in-america-162837*
7. *https://www.insidehighered.com/news/2021/06/16/mackenzie-scott-gifts-millions-community-colleges-regional-colleges-and-nonprofits*
8. *https://nonprofitquarterly.org/donors-require-socially-responsible-investments-at-universities/*
9. *https://community-wealth.org/content/student-divestment-movement-s-next-frontier-community-investment*
10. *https://www.highereddive.com/news/will-colleges-shift-to-sustainable-investing-continue-amid-the-pandemic/583564/*