Faculty Meeting
April 7, 2018

Motion: The faculty urges the Board of Trustees to adopt the recommendations of the Investment Policy Working Group.

RATIONALE The Working Group believes aligning investment practices more closely to institutional values and mission is both right and necessary. According to our survey, most members of the community think so too. Integrating environmental, social, and corporate governance (ESG) factors into investment decisions earns competitive returns, is consistent with the trustees' fiduciary duty, and will enhance the college's reputation with important stakeholders, notably students, alumni, faculty, and staff.

While we acknowledge the normative and procedural challenges of sustainable investing, we believe the more inclusive and transparent approach to governance and investing embodied in the recommendations provide a sound basis for the future.

Recommendations

Consistent with its fiduciary duty, Skidmore will integrate a consideration of ESG* standards into its due diligence when making investment decisions.

To further the recommendation above, the working group recommends that Skidmore:

A. Promote broader community engagement by expanding membership on the investment committee or developing an advisory council that includes faculty, staff, and students.

B. Allocate 5% of the endowment to ESG fund(s) and or impact investments by 7/1/2023. Permit alumni and donors to direct contributions to ESG investments.

C. Work with other colleges and universities, foundations, and investment advisors to develop best sustainable investment practices.

D. Allocate 1% of endowment takeout to a revolving fund dedicated to accelerating campus sustainability projects.

E. Consider increased direct ownership of equities to facilitate shareholder engagement.

F. Make regular reports on progress toward sustainable investment goals (e.g., at community meetings, faculty meetings, and on the web).

*ESG refers to the consideration of environmental, social and governance factors as well as financial return in investment decisions. ESG includes issues such as energy conservation and waste management, diversity and non-discrimination, worker rights, transparency and effective board oversight.

Investment Working Group
Preliminary Report
4/4/2018

Introduction

In fall of 2017, the President convened a working group at the request of faculty who strongly disagreed with the trustees' decision to reject the Divestment Task Force report calling for a link between institutional values and investment policy. The charge asked the group "**to explore ways the College could align our institutional values with our investment strategies and to make recommendations to the Board of Trustees, the faculty, and the Skidmore community by the conclusion of the AY 2017-2018.**" The following report summarizes the findings and conclusions of the working group. It begins with a summary of what other institutions have accomplished in terms of aligning their institutional values and investments, and then addresses the question of whether the Skidmore community supports such an alignment. Next, the report asks how explicit values espoused by Skidmore (e.g., responsible citizenship, sustainability, inclusion and transparency) could inform investment strategy. It then discusses the potential risks and rewards of such action. Finally, the report concludes that (1) such alignment is possible, (2) congruent with Skidmore's institutional ethos, and (3) that failing to align values and policy is actually the riskier path. The working group offers several steps to consider as means whereby Skidmore's investment strategy might incrementally be brought to accord with and to further its institutional values.

Is it possible or desirable to align institutional values and investment strategy?

Twenty-three percent of US foundations and 17% of colleges and universities[1] have adopted socially responsible investment policies. In 2016, US SIF reports that total U.S. assets employing sustainable, responsible, and/or impact investing strategies were $8.72 trillion—22 percent of all institutionally invested funds. Colleges and universities account for $550 billion of the total[2].

Foundations and religiously affiliated colleges have adopted Socially Responsible Investment (SRI[3]) on the logic that their investment behavior is a mechanism for directly advancing the college or foundation goals ("mission investing") and should align with the institution's core values. As students, faculty, and alumni have pressed for change, the list of peer and aspirant colleges aligning their Environmental, Social, and Governance [ESG] [4] values with investment

1 2016 NACUBO-Commonfund Study of Endowments

2 2016 NACUBO-Commonfund Study of Endowments

3 Intentionally Designed Endowment Primer is a good short introduction to SRI.
https://d3n8a8pro7vhmx.cloudfront.net/intentionalendowments/pages/21/attachments/original/1504700252/Intent-Endowment-Primer_Aug2017.pdf?1504700252
Socially Responsible Investing (SRI) was the first values oriented investment effort, and although accurate enough, the term is not current. Early SRI focused on excluding investments such as tobacco and gambling and it did not earn a wide following. When people think about under performance, they are to some extent referring to the early experience with SRI. LINK to ESG and straighten out in body of the text.

4 Environmental, Social, and Governance (ESG) refers to an investing approach concerned with the environmental and social impact of the investment and standards (transparency, inclusion and transparency, for example) of corporate governance. A good short read, The business case for ESG
http://www.intentionalendowments.org/the_business_case_for_esg

policy is growing. Adopters of this strategy now includes colleges such as Harvard, Middlebury and Brown. In addition to positive investment impact, some colleges see SRI as means to enhance branding, boost recruitment, and increase donor engagement.

In the Working Group's survey of over 500 Skidmore community members, alumni, faculty, staff, and students overwhelmingly endorsed the view that there should be a connection between Skidmore's institutional values and its investment portfolio[5]. Approaches towards aligning values and investment strategies have varied across our peer and aspirant institutions (e.g., Oberlin, Bard, Bowdoin). They include divestment, impact investing, ESG, and adding non-board members to investment committees. More generally, in our survey of over 500 Skidmore community members, alumni, faculty, staff, and students there was overwhelming agreement that Skidmore should devote a certain percentage of its investments towards sustainable and socially responsible investments. A profound majority also endorsed increased investment in green and clean energy as well as an increased outlay to initiatives that serve to improve and sustain our local community.[6]

In short, there is strong community support for aligning Skidmore's values and its investment strategies, and a clear precedent for doing so among peer and aspirant institutions.

Can Informed Responsible Citizenship, Sustainability, Inclusion and Transparency inform Investment Policy?

One of Skidmore's main goals is to educate informed citizens. Skidmore has endorsed sustainability and inclusion in the 2015-2025 strategic plan, and it is, in many domains, working to align college operations with these values. However, the current policy and structure of the investment committee is a noteworthy and problematic exception to these values and aims. The investment committee does not include community members and relies primarily on professional managers when making decisions about the management of the endowment. These decisions are not discussed with Skidmore community members, they are not transparently shared, and, as our survey shows, these decisions do not reflect community values or institutional purpose.. This structure is not inclusive, it minimizes accountability, it reduces our ability to align our investment choices with our values, and, most crucially, it results in a missed opportunity for education, dialogue, and community building.

One possible result of this structure (and the heavy reliance on investment fund managers and opaque funds) is that the endowment might be put to a use that undermines institutional purposes. In our survey, we found that community members roundly rejected increasing investment in for-profit prisons and that alumni, faculty, students, and staff rejected increased investment in fossil fuels. With the current investment structure, the community and donors cannot know what the college is invested in, cannot assert preferences about avoiding particular investment choices,

[5] There were too few administrators (n=4), parents (n=6), or retirees (n=5) to determine with confidence that they endorsed such a connection, although the average rating for each of these groups indicated agreement with connecting institutional values and investment. The only trustee who participated "strongly disagree[d]" with the utility of such a connection.

[6] For full results: https://docs.google.com/presentation/d/1SBr7OHcb0JVI8W6BcWoPzJziXQKU3bNEpUTKNw9HFtM/edit#slide=id.g2f758ff840_0_49

and are excluded from the process to such an extent that they cannot have informed, educational conversations about past, present, or future investment decisions. To summarize, the way in which money is presently invested is likely to be at odds with the college's goals of informed responsible citizenship, sustainability and inclusion, especially in regard to Environmental and Social matters.

Charting a path forward – as an institution – requires rigorous deliberation, attention to evidence, and inclusive governance. Indeed, deliberation, attention to evidence, and inclusive governance are what we are trying to teach students. We believe learning citizenship requires not only a formal curriculum but also membership in a community of citizens. Notably, faculty, staff, students, and alumni endorsed the idea that there should be greater representation of community members on the investment committee, and our peer and aspirant institutions provide us with strong models for how this might work (e.g., Bard, Connecticut College, Bates, Oberlin, Union, Trinity, SUNY Buffalo, and others). Increased representation results not only in a more inclusive investment policy and greater campus debate, but also greater levels of transparency.

Our principle recommendation is a call for a deeper affirmation of sustainability, citizenship, inclusion, and transparency in our investment policy. We call for increased ESG and impact investment, an option for donors to direct donations into ESG funds, and an allocation of endowment revenue to advance campus sustainability.

Our secondary set of recommendations are means for creating more inclusive investment protocols that allow our community members to reap the educational benefits of tackling such a difficult problem. To this end, we propose expanding membership on the investment committee, partnering with foundations and institutions to develop sustainable investment practices, accelerating sustainability initiatives on campus, and making regular reports to the community on progress towards sustainable investment goals.

Risk

Managing the endowment is an opportunity and a challenge. The endowment is an instrumental resource and the return is essential to the college. Trustees have argued that ESG is risky because embracing it requires eliminating potential investments from consideration, and because it may make the portfolio less efficient, potentially reducing return. Our research revealed that these assumptions are not universally shared among the investment community, and indeed our survey revealed that the Skidmore Community disagrees that sustainable investing is "too risky." The Skidmore Community does, however, overwhelmingly agree that Skidmore should pursue investment strategies with proven track records of success.

Indexing is the most efficient approach to investing[7]. However, and ironically, Skidmore's endowment does not use the most efficient investment vehicles—index funds. Skidmore employs managers utilizing various strategies—strategies that eliminate some investments in favor of

[7] Malkiel, B. G. (2016). A random walk down Wall Street: The time-tested strategy for successful investing. New York: W.W. Norton and Company. And Fama, E. (1970) 'Efficient capital markets: a review of theory and empirical work', *Journal of Finance*, Vol. 25, pp. 383–417.

others, thereby introducing the inefficiency they fear from ESG. College endowments underperform index funds[8], including SRI indexes[9].

Private managers believe that markets are not always efficient, that some assets are mispriced, and that a good manager divines the mispricing and beats the market by buying mispriced assets and holding them until they are properly valued. According to a recent meta-analysis[10] and NACUBO surveys, the trustees are wrong about the benefits of private managers and the risk return profile of sustainable investing. This is the point Warren Buffet made with his famous bet against private equity. The largest and wealthiest colleges earn some benefit from the expertise of their managers, but endowments of Skidmore's size do not. We say this to make three main points: (1) there is no reason to believe that Skidmore's current investment strategy is low-risk or that it is higher return than an SRI alternative, (2) there are steps towards SRI investing that have historically outperformed Skidmore's current investment strategy, and (3) whether one agrees or disagrees with the claims above, there are important, community-wide discussions to be had about Skidmore's investments. These conversations can only happen with greater inclusion and transparency.

Ignoring the environmental, social and governance impacts of our investments is inconsistent with institutional values, and it does not earn the college a higher return. In many respects, ignoring sustainable investing is actually the riskier, more consequential choice. In addition to the potential risks involved with global climate change and the human and environmental damage associated with various industries, there are additional risks that the community faces if it does not pursue sustainable and inclusive investment practices. There is both the risk of underperforming and the risk of cultivating complacency and ignorance in our community. More generally, there is the risk of alienating students, alumni, and donors, and of failing to recruit new students. Our survey revealed that about 25% of potential donors would not change their donations to Skidmore based on investment strategies, but that 65% of participants would increase their donations if some or all of their donation were placed into funds that matched their investment preferences. Finally, and most significantly, our current investment strategy fails to model inclusion and transparency, the qualities and habits required of informed citizens, and it does not promote sustainability.

Aligning investment philosophy with institutional values does not require an immediate, radical change in the portfolio. Rather we are proposing changes in how the college thinks about investing and who is in involved in decision-making. We imagine these changes to policy and practice will reshape the endowment over time.

[8] 2016 NACUBO-Commonfund Study of Endowments fig. 2.2 p.10

[9] http://www.domini.com/domini-funds/fund-performance

[10] Revelli, C. and Viviani, J. L. (2015), Financial performance of socially responsible investing (SRI): what have we learned? A meta-analysis. Bus Ethics Eur Rev, 24: 158–185. doi:10.1111/beer.12076

Terms in Use

This discussion use numerous terms related to “responsible,” “ethical,” “socially responsible,” and “sustainable” college investment practices.

The endowment is the accumulated gifts of donors, held in perpetuity, and invested by the college to earn a return that is used to support the college’s program. Endowments generally diversify their holdings to reduce risk, protect the endowment’s value, and to earn a higher, more predictable return.

College trustees are responsible for managing the endowment. The investment committee contracts with professional managers to actually manage the endowment.

Endowment Takeout refers to the amount of income from the endowment allocated for college operations in a given year. The typical rate is between 4% and 5%. Earnings in excess of the takeout are reinvested to offset inflation and increase the endowment principle.

Investment Approaches

Socially Responsible Investing (SRI) can use both positive and negative investment criteria to align investments with an individual or institution’s mission or values. However, many use this term to refer only to the strategy of negative screening (see below).

Environmental, Social, and Governance Investing (ESG) aims to create a more complete picture of potential investment risks and opportunities by factoring environmental, social, and governance criteria into investment decisions.

Investment Strategies

Impact investing involves investing in projects or companies (often not publicly traded) with the purpose of generating positive social or environmental change (e.g., clean technology private equity funds).

Negative screening is the strategy of excluding companies, industries, or countries that the investor considers irresponsible from an investment portfolio (e.g., avoiding investing in gambling, alcohol, or tobacco companies).

Divestment – or selling an asset – refers to selling holdings in a company or sector for ethical or political reasons in order to reduce risk, to avoid being complicit, or to make a statement (e.g., divesting from fossil fuel companies).

Positive screening is a strategy that involves investing in companies that meet certain ESG criteria as determined by the investor, often looking to find “best-in-class” companies within a sector (e.g., identifying the most energy-efficient or least carbon- intensive companies in a sector).

Shareholder engagement or advocacy is a tactic of using ownership in a company to improve its social responsibility practices by voting at shareholder meetings (or by proxy), filing shareholder resolutions, and/or establishing ongoing dialogues with companies (e.g., filing a resolution calling for a company to create a governance policy to ensure gender and ethnic balance among Board members and executives).

Adapted from the Intentionally Designed Endowment, p.6
https://d3n8a8pro7vhmx.cloudfront.net/intentionalendowments/pages/21/attachments/original/1504700252/Intent-Endowment-Primer_Aug2017.pdf?1504700252

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