Financial Performance of Sustainable Investing

THE STATE OF THE FIELD AND CASE STUDIES FOR ENDOWMENTS

Intentional Endowments Network

An initiative of CraneSustainability.org

Table of Contents

Executive Summary

There is now a critical mass of investors who recognize that issues of equity and environmental impact are central to the success of businesses and the long-term health of the economy as a whole. Endowments and foundations, charged with stewarding resources in the public interest over the long term, are increasingly integrating the risks and opportunities associated with environmental, social, and governance (ESG) factors into investment policies and practices. Motivations for doing so include the business case, the moral imperative, stakeholder demands, and mission alignment.

EVIDENCE

The financial performance of ESG strategies remains a central concern for the fiduciaries stewarding these institutions' capital. This report provides an update on the state of the research, highlighting studies that have explored the financial performance of a variety of sustainable investing strategies. **The bottom line? A growing body of evidence from academics and practitioners shows that sustainable investing strategies, in general, perform as well or better than traditional approaches.**

Case Studies of Endowment Investing Strategies

In addition to summarizing existing research, this report includes several brief case studies of some of the pioneering endowments and foundations in this field. The universe of endowments and foundations with data available on the financial performance of their ESG, fossil fuel-free, or other sustainable investing strategies remains limited. However, there are a growing number with track records that they are willing to share. Their experiences to date include:

- **Arizona State University:** The ASU Foundation established a $100 million Sustainable, Responsible, and Impact investment pool in July 2019, which has outperformed non-ESG-oriented strategies since its launch.
- **Becker College:** Becker's investment policy statement calls for 100% of its $5 million endowment to be invested for social impact using ESG strategies. Since implementation with HIP (Human Impact + Profit) Investor in 2017, Becker's endowment has realized stronger total returns, lower risk, higher Sharpe ratios, more alpha, and lower betas with the ESG-focused diversified portfolio, compared to the previous before-ESG-focus portfolio.
- **California State University:** The CSU Foundation approved a transition of its portfolio to an ESG mandate to better align with the values of the California State University. The global equity composite was the first portion of the portfolio to transition in July 2019, and is outperforming its benchmark to date – in addition to lowering its composite expense ratio.
- **College of the Atlantic:** One of the first colleges to divest from fossil fuels in 2013, the College has worked with Cambridge Associates to diversify its growing endowment portfolio while remaining true to its fossil fuel-free commitment; since 2013, its +8.8% annualized return has ranked in the top quartile of all peer endowments in the Cambridge universe, and the top 1% of similarly-sized peer endowments.
- **Global Endowment Management:** in its capacity as the outsourced chief investment officer (OCIO) of a university endowment client, GEM developed a "Green Endowment" model that eliminated material exposure to fossil fuel strategies and used a back-test analysis to show the robustness of the strategy, modeling modestly higher returns and higher risk over a 10-year time period.
- **Hampshire College:** With a history of socially responsible investing dating back to the mid-1970's, Hampshire has worked with Prime Buchholz to evolve its strategy to keep pace with environmental and social risks and opportunities, including reducing exposure to fossil fuel investments, outperforming its benchmark and the median NACUBO peer over 5 years.
- **North Carolina State University:** In 2012, NC State received a gift commitment of $50 million with the stipulation that it be invested in a "socially responsible fashion." The NC State investment team established an ESG investing strategy in a parallel fund through the NC State Foundation, which has outperformed both its benchmark, and the university's larger endowment fund.

- **Unity College:** After Unity's Investment Committee set a target of reducing fossil fuel exposure within a 5-year period, its investment manager Spinnaker was able to make the endowment fossil fuel free within 9 months by the summer of 2013. From September 2012 through August 2019, the endowment has returned 6.6%, annualized, gross of fees.

- **University of New Hampshire:** Following several years of extensive student activism and campus conversations, the UNH Foundation established an ESG pool in 2015. Due to fund transfers and performance, this pool has since grown to $42 million (17% of total assets under management) and experienced strong returns, outperforming both its benchmarks and the main endowment pool.

- **University of California:** The UC system was the first public university to sign the Principles for Responsible Investment in 2014, explicitly made ESG considerations part of its Investment Policy in 2018, set a 5-year goal to invest $1 billion in clean energy solutions by 2020, and announced in 2019 a commitment to fossil fuel free investing. 1-, 3-, and 5-year returns have outperformed its benchmarks.

- **Warren Wilson College:** Warren Wilson's endowment has divested from fossil fuels in its public equity portfolio, utilizing two customized separate accounts and a commingled emerging markets fund with a quantitative fossil fuel-free approach. To date, the passive portfolios have performed in line with their traditional market benchmarks, and the emerging markets portfolio has slightly outperformed its benchmark.

These case studies are not intended to be a comprehensive review, nor provide the definitive last word on this important area of study**. But for endowment fiduciaries asking whether they can implement mission-aligned strategies without sacrificing financial returns, these examples demonstrate that it is possible to take a thoughtful approach to ESG factors, have a meaningful impact in driving positive change for institutions' stakeholders and communities, and maintain or improve investment performance.** This growing body of knowledge challenges the persistent assumption that sustainable investing necessarily means accepting lower returns. Institutional investors are seeing that the opposite is more likely true – that a smart approach to considering ESG factors can help reduce risk, avoid losses, uncover opportunities for strong performance, and improve overall financial returns.

> **"We have a vision for a sustainable society that transcends our teaching methods and even our campus, and extends to ethical, systematic, comprehensive, scientifically-informed operational policies. The Unity College way is helping our students to learn from the process as we do the right thing."**
>
> – Unity College President Dr. Melik Peter Khoury

Background

In the face of a climate crisis and destabilizing inequality, both businesses and social purpose institutions (including colleges, universities, nonprofits, and foundations) are changing the way they operate. Investors are shifting capital to reflect the environmental, social, and governance (ESG) considerations that are material to investments in every sector. As Larry Fink, CEO of the world's largest investment management firm, BlackRock, recently declared, "climate change will reshape finance."

In the face of a climate crisis and destabilizing inequality, both businesses and social purpose institutions (including colleges, universities, nonprofits, and foundations) are changing the way they operate. Investors are shifting capital to reflect the environmental, social, and governance (ESG) considerations that are material to investments in every sector. As Larry Fink, CEO of the world's largest investment management firm, BlackRock, recently declared, "climate change will reshape finance."

For endowments and foundations, there are many motivations for pursuing ESG strategies, including stakeholder calls to do so, desire to align investments with mission, and the straightforward investment case to reduce risk, reveal opportunities, and enhance risk-adjusted returns. Each of these may lead to different approaches. The Intentional Endowments Network's *Roadmap* provides a conceptual framework for asset owners in navigating their own course with regard to sustainable investing *(see Figure 1)*.[1]

Because there are a variety of approaches, there remains some confusion regarding the terminology used to describe them. Umbrella terms like "responsible," "ethical," "mission-related," or "sustainable" investing have evolved over the past four decades. See Box 1 for an overview of definitions for the most common terms. For more background on the field as a whole, please refer to our *Primer for Intentionally Designed Endowments.*[2] In this report, we use the term "sustainable investing" as an umbrella term to capture the full range of investment approaches and strategies.

As the sustainable investing field has grown and matured, so has the body of evidence regarding the financial performance of these strategies, in the form of academic and practitioner research as well as individual examples of portfolio and fund performance.

The purpose of this report is to provide an updated summary of the research related to the financial performance of various sustainable investing strategies. It also provides examples of endowments that have implemented such strategies – particularly comprehensive ESG integration and/or fossil fuel divestment – to demonstrate that it is possible to do so and achieve investment returns inline with past performance and return expectations.

Figure 1: Roadmap for Intentionally Designed Endowments, available at www.intentionalendowments.org/roadmap

Box 1: Making Sense of the Terms

SOCIALLY RESPONSIBLE INVESTING (SRI) can use both positive and negative investment criteria but many now use this term to refer only to the strategy of negative screening.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) INVESTING aims to create a more complete picture of potential investment risks and opportunities by factoring ESG criteria into investment decisions.

IMPACT INVESTING involves investing in projects or companies with the intentional purpose of generating positive social or environmental change as well as generating a financial return.

NEGATIVE SCREENING excludes companies, industries, or countries that the investor considers irresponsible from an investment portfolio.

DIVESTMENT refers to selling holdings in a company or sector for ethical or political reasons, in order to reduce risk, avoid being complicit, or make a statement.

POSITIVE SCREENING involves investing in companies that meet certain ESG criteria as determined by the investor, often looking to find "best-in-class" companies within a sectors.

SHAREHOLDER ENGAGEMENT OR ADVOCACY is a tactic of using ownership in a company to improve its ESG practices to protect and enhance the value of the company by voting at shareholder meetings (or by proxy), filing shareholder resolutions, and/or establishing ongoing dialogues with companies.

Summary of Research

There is a challenge in 'proving' that sustainable investing strategies achieve the same performance objectives as conventional strategies: performance depends on a myriad of factors including asset allocation, manager talent, and time period examined. As the field has grown, so has the body of evidence demonstrating that there is no inherent tradeoff between pursuing sustainable investing strategies and meeting performance goals.

In 2016, the IEN published the ***Business Case for ESG***.[3] This briefing paper provided a summary of what ESG investing is and referenced several studies demonstrating that the financial performance of these strategies tend to be on par or better than strategies that do not explicitly consider these factors.

Since then, several new reports and bodies of research have reinforced these findings. In addition, there are more real-world case studies of asset managers and asset owners that have enjoyed strong performance from ESG strategies.

ESG INVESTING

This section summarizes research on ESG strategies' performance both at the portfolio level and by asset class.

Full-Portfolio

In the context of higher education endowments, the National Association of College & University Business Officers (NACUBO), analyzed data from their 2019 survey of endowments and found no performance difference at a full portfolio level between those that employ ESG strategies (which they refer to as ESG/SRI) and those that did not:

> "ESG/SRI users realized a 5.3 percent average 1-year return and an 8.4 percent 10-year return. Non-ESG/SRI users realized a 5.1 percent 1-year return and an 8.4 percent 10-year return. NACUBO concludes that **'There is no evidence that ESG/SRI strategies negatively impacted investment returns in FY19.'** These findings echoed a similar study performed on 2017 survey data."[4]

Looking more broadly beyond higher education endowments, research shows the strong performance of ESG strategies. In December 2015, a study of approximately 2,200 academic studies found: **"The results show that the business case for ESG investing is empirically very well founded. Roughly 90% of studies find a nonnegative ESG–CFP [Corporate Financial Performance] relation. More importantly, the large majority of studies reports positive findings."**[5] This study analyzed data for portfolio and nonportfolio studies, and for various ESG themes, asset classes, and regions. The authors find simply: "Investing in ESG pays financially."[6]

Public Equities

Perhaps the most widely studied asset class in terms of ESG strategies' performance, public equities are also a significant portion of many endowments' asset allocations – particularly for endowments with under $500 million.

For public equity mutual funds, Barron reported that in 2019, "Of the 189 funds that met the ESG criteria … 41% outperformed the S&P 500 index for the year. That's compared to just 29% of big-cap equity funds overall that beat the index."[7]

At the individual company level, a November 2019 report from BofA Global Research, titled *ESG From A to Z*, found that

- "U.S. companies with high (top quintile) ESG rankings in the S&P 500 index have outperformed their counterparts with lower (bottom quintile) ESG rankings by at least 3% every year for the past five years
- **In the U.S., ESG metrics are the best measure for signaling future earnings risk – superior even to financial risk factors, like the level of a company's leverage."**[8]

In emerging markets as well, the case for the benefits of ESG investing is growing. The results of a 2017 study reviewing the literature on emerging markets and ESG, as well as analyzing data from ESG and non-ESG emerging market indices, found: "significant outperformance based on ESG integration. **The implications of this study indicate that integrating ESG emerging market equities into institutional portfolios could provide institutional investors the opportunity for higher returns and lower downside risk than non-ESG equity investments."**[9]

In their book, *Invest for Good: A Healthier World and a Wealthier You*, Mark Mobius, Carlos von Hardenberg, and Greg Konieczny outline how their focus on ESG factors reduces risk and drives superior returns. Mark Mobius launched the first London-listed emerging markets investment trust 30 years ago, with a focus on corporate governance at the core, actively considering relevant environmental and social factors. The total net asset value (NAV) from 1989-2015 "was over 1950 percent against a return of about 700 percent of the MSCI Emerging Markets Index."[10] The authors founded Mobius Capital Partners to take an even more explicit and systematic approach to ESG in their active emerging market strategies to drive impact and superior returns.

Fixed Income

In 2016, a Barclays report, *The positive impact of ESG investing on bond performance*, highlighted the following key findings:

- "Introducing ESG factors into the investment process resulted in a small but steady performance benefit. No evidence of a negative impact was found.
- Over the historical period of the study, the performance advantage of portfolios with an ESG tilt was not caused by high-ESG bonds becoming more expensive than their low-ESG peers, driven up by excess demand. Thus, we found no evidence to suggest that including high-ESG bonds would cause future underperformance as the prices of these bonds revert back to the prices of their peers."[11]

Private Equity

In private markets, ESG factors are used to both evaluate potential investments and add value to portfolio companies by proactively improving sustainability performance. It is still early days to be evaluating private equity, given that the quality of ESG data and proficiency in integrating the data has evolved significantly in the last decade, and that private equity investments have a 10-15 year time horizon. That said, a 2018 study of 126 private equity vehicles, 70 ESG and 56 non-ESG, in Europe and North America between 2006-2015 found that **"ESG funds generated more stable returns,** in terms of net internal rate of return (IRR) standard deviation, in comparison with non-ESG vehicles, even if the latter showed a superior net IRR," and that **ESG funds "contributed to a better portfolio diversification inside large institutional investors."**[12]

Real Assets

A recent survey by Macquarie Infrastructure and Real Assets (MIRA) found that nearly 80% of real asset investors saw a positive correlation between ESG and investment performance. The MIRA report concluded:"

> **"The substantial body of academic literature on this subject points to a robust, positive link between ESG and corporate performance. Our analysis of listed infrastructure shows that ESG stocks have performed better than non-ESG stocks over a long period.** ESG stocks also generate greater amounts of [free cash flow] and have better margins than non-ESG stocks.
>
> Taken together the evidence provides support for the notion that sustainable investing (the latest evolution of ESG) adds financial value."[13]

A 2017 study on sustainable investing in Real Estate Investment Trusts (REITs), in the US found that **"REITs with a more sustainable portfolio experience higher rental income, higher operating expenses, and lower interest expenses, increasing cash flows available for distribution to shareholders.** These firms also carry lower systematic risk, are subject to less uninformed trading, and attract higher premiums to NAV." [14]

FOSSIL FUEL-FREE INVESTING

For many endowments, stakeholder calls for fossil fuel divestment have been a driving motivation for exploring sustainable investing strategies. As more investors commit to fossil fuel-free investing, and analysts continue to research these strategies and conduct back-tests, the case is clear that such strategies do not require accepting lower returns. Further, the case for reducing portfolio climate risk and stranded asset risk becomes ever stronger as consumer demands, regulatory trends, and market forces push society towards a low-carbon economy. Four recent reports, released since mid-2018, make a compelling case:

The Race of Our Lives, Revisited

Jeremy Grantham, August 2018

In August 2018, Jeremy Grantham, the highly respected co-founder of the investment firm GMO, released a white paper titled *The Race of Our Lives, Revisited* laying out the state of

(Continued)

humanity's challenge regarding climate change – as well as other environmental, health, and social threats.[15] In it, he raises a myriad of underappreciated investment risks. He also shares an analysis he and his team conducted showing **that over the long-term (and multiple time periods), investors can divest from any sector with negligible impact on returns.** He states:

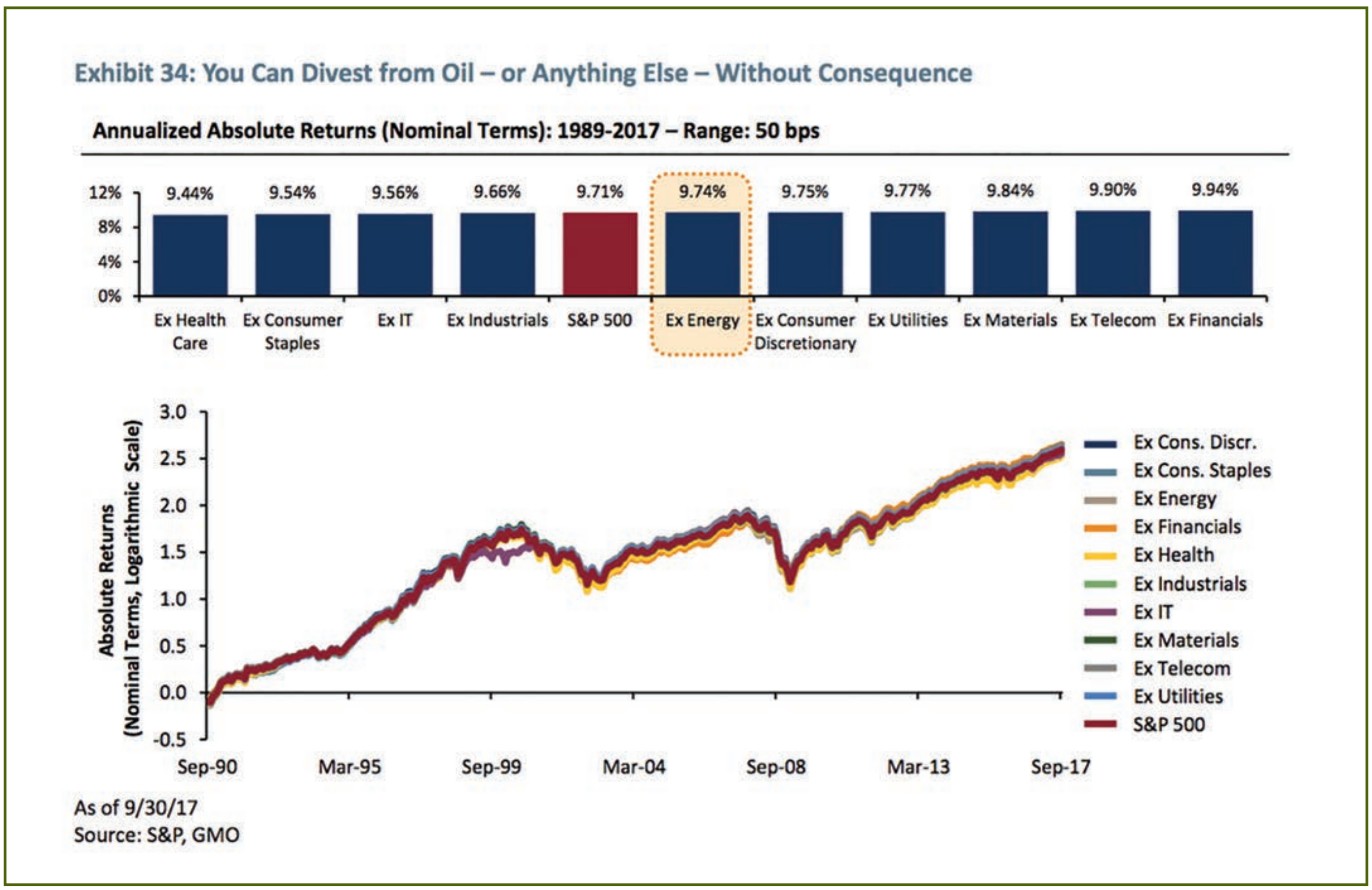
> "It should be pretty clear from this discussion that if you're messing around with oil stocks, you're taking the serious risk of ending up with stranded assets… Yet investment committees, the most conservative groups on the planet as we know – I have spoken to perhaps 3,000 or so of them – maintain that if they divest from oil it will ruin their performance. And that in any case, ethics, à la Friedman, should not come into it. If they accept any constraint at all, they feel, it will ruin their performance. I'm sympathetic up to a point: you don't want everyone with a bee in his bonnet to come marching in. But this issue – climate change – is the mother and father of all exceptions. It is about our survival. our survival. Exhibit 34 [Figure 1, below] shows what we did to test this long-held divestment hypothesis. We took out each of the 10 major groups in the market for 30 years, leaving only 9 of the 10 groups in each portfolio, and what we found was that it didn't make any difference. The entire range from best to worst was only 50 basis points. The return you get without Energy is highlighted – you make 3 bps more without Energy." [16]

Divest Invest Philanthropy: Five Years After Launch

The Croatan Institute, October 2019

In 2014, 17 foundations with approximately $1.8 billion in assets pledged to divest from fossil fuels and invest in solutions to climate change. As of October 2019, nearly 200 foundations worth $24 billion had taken the Divest Invest pledge,

Figure 2: From "The Race of Our Lives, Revisited," showing returns of the S&P 500 from 1989-2017 compared to returns with various sectors removed



Source: The Race of Our Lives, Revisited. GMO. August 2018.

> **“As of October 2019, nearly 200 foundations worth $24 billion had pledged to divest from fossil fuels and invest in solutions to climate change. 94%, said that their financial performance since taking the pledge has been positively or neutrally affected.**

“committing—over five years—to divest from oil, gas, and coal companies and to invest at least five percent of their assets in climate solutions, such as renewable energy, energy efficiency, sustainable agriculture, community resilience, and clean energy access for the developing world.” [17]

The Croatan Institute recently conducted an analysis of the philanthropic foundations that have made this pledge, five years after the launch of the *Divest Invest Philanthropy* initiative. The main findings include:

- 97% of the respondents pledging in 2014 held 1% or less of their portfolio invested in fossil fuels as of 2019, all while maintaining or improving their expected risk-return profiles.
- **The vast majority of respondents, 94%, said that their financial performance since taking the pledge has been positively or neutrally affected.**[18]
- A majority of respondents (52%) said that their financial performance had been positively impacted since taking the pledge, and 42% said that there had been no change in performance at all.[19]

The report includes several case studies of foundations that are implementing their commitments. A summary of selected case studies drawn directly from the Croatan report is provided in the ‘Case Studies’ section below.

Divestment from Fossil Fuels: The Financial Case

Sightlines and the Institute for Energy Economics and Financial Analysis (IEEFA), July 2018

The Sightlines/IEEFA paper focused exclusively on the financial case for fossil fuel divestment, putting aside scientific, moral, and legal arguments for divestment. It finds that **in the preceding five years (from 2018) investments in fossil fuel companies no longer provided the outperformance they had in the past:**

> “The financial case for fossil fuel divestment is strong. Over the past three and five years, respectively, global stock indexes without fossil fuel holdings have outperformed otherwise identical indexes that include fossil fuel companies. Fossil fuel companies once led the economy and world stock markets. They now lag.
>
> Paradoxically, the sector’s sudden fall from grace was largely caused by a price drop that grew out of a major technological innovation in the oil and gas sector: hydraulic fracturing (fracking). After oil prices crashed in 2014, oil company revenues plummeted, expensive capital investments failed, massive amounts of reserves were written off as no longer economic, and major bankruptcies occurred.
>
> Higher prices are not going to solve the sector’s woes. Recently [2018], oil prices have begun rising from their low of $28 per barrel in 2016 to where they are now, above $75 per barrel. But even with this two-year run-up in prices, energy stocks were the second-to-last performing sector in 2017, as information technology, health, consumer discretionary, real estate, utilities and manufacturing all posted stronger returns, as did the Standard and Poor’s 500 as a whole. And whatever benefit higher prices bring to companies’ balance sheets, they increase the competitive advantage of renewables and push consumers to work harder to reduce their dependence on fossil fuels.”[21]

The Sightlines/IEEFA paper focuses on shorter 3- and 5-year time periods. It acknowledges that fossil fuel companies have provided strong investment returns in the past, but contends that past performance is not indicative of future results as a variety of forces prompt society to move away from fossil fuel use.

As demonstrated by Grantham’s analysis above, even over longer time frames, divesting from the sector would still have negligible impact on returns. This is supported by another

(Continued)

2018 study from University of Groningen, which compared financial performance of investment portfolios with and without fossil fuel companies over the period 1927-2016. The authors state, **"Contrary to theoretical expectations, we find that fossil fuel divestment does not seem to impair portfolio performance. These findings can be explained by the fact that, so far, fossil fuel company stocks do not outperform other stocks on a risk-adjusted basis and provide relatively limited diversification benefits."**[22]

With regard to the implications of this analysis for fiduciaries, the authors find: "The decline of the fossil fuel sector requires a response from trustees of investment funds big and small. While a decision on divestment will be driven by the particular goals and standards of each fund, it is clear that every fund must now consider fossil fuel divestment." [23]

Examining the Impact of Fossil Fuel Divestment on University Endowments

Christopher J. Ryan, Jr. & Christopher R. Marsicano, December 2019

The "Examining the Impact" study looked at the actual impact of partial and full fossil fuel divestment on a sub-set of large and mid-sized university endowments in the US, where previous studies have estimated these impacts.

The researchers used two different modeling techniques and drew on data from the Integrated Postsecondary Education Data System (IPEDS) and NACUBO for university endowment market values from FY 2000-2017. While one of the methods employed showed negative consequences of divestment for endowment fair-market values, the authors "urge the reader to interpret these preliminary results with caution, in part because our second method of analysis suggests that the negative consequences of divestment may be overstated in the near-term." This second method also found, "there is not a negative effect associated with divestment for mid-sized and large endowments."[24]

The authors acknowledge limitations in the study. The data are not comprehensive, and it relies on public statements on divestment – some that have committed to divestment may still hold fossil fuels, and others may have quietly divested without announcement. They call for further research on the topic, and conclude that the results of this approach show: **"On one hand, divestment does not clearly harm a university's endowment assets... Divestment, however, does not yield guaranteed positive gains in endowment value either."**[25]

From Research to Examples: Endowment Case Studies

While a growing body of evidence that sustainable investing strategies, including ESG integration and fossil fuel-free investing, perform as well or better than traditional strategies, endowment fiduciaries need more than just evidence. They need concrete examples from their peers describing how they have invested and what the results have been.

By examining peers' experiences, fiduciaries can identify which questions to ask of their investment committees, investment managers, and broader stakeholders, and well as how they might proceed once they have reached consensus on the answers. Several brief case studies follow that range in track records from half a year to six and a half years. They provide a starting point for showing that ESG and/or fossil fuel-free strategies can achieve the risk and return objectives that endowment fiduciaries are targeting.

These case studies show just some of the choices endowments have made, and are presented to inspire fiduciaries to question their assumptions about what sustainable investing looks like.

We have compiled experiences from across the Intentional Endowments Network, from small liberal arts colleges to large public university systems, to show that sustainable investing is possible across different endowment sizes and institutional missions.

Arizona State University

Tempe, AZ. Endowment: $922.1 million

The ASU Foundation established a $100 million Sustainable, Responsible, and Impact investment pool in July 2019. The university remains committed to taking a leadership role in addressing issues that pose a threat to our global community and the creation of this new fund is another example of how we are supporting that effort. While the long-term investment strategy is being developed, the first phase was to steadily deploy capital into ESG-optimized public market investments. Since implementation (7/1/19-12/31/19), the ESG-oriented strategies have outperformed the non-ESG versions that we track. In US Equities, the ESG version outperformed the non-ESG version 11.8% vs. 10.9%. In international developed markets, 5.6% vs. 5.2% and in emerging markets, 2.7% vs. 1.8%. While 6 months is too short a window to draw significant conclusions on performance, we're encouraged by the growing sophistication and availability of products in this space that allow us to build a portfolio that doesn't need to sacrifice returns in order to align with our mission.

– Jeff Mindlin, Vice President & Chief Investment Officer, ASU Enterprise Partners

(Continued)

Becker College and HIP Investor

Worcester, MA. Endowment: $5.4 million

BECKER COLLEGE: ABOUT THE INSTITUTION

Becker College is an undergraduate and graduate, career-focused private college, based in Worcester, Massachusetts. Becker offers a supportive and inclusive learning community that prepares graduates for their first to last careers. Becker's undergraduate, graduate, and online and evening programs – from top-rated/ranked programs for nurses, animal care, and video-game designers – provide students with skills, knowledge, hands-on experience, and the ability and agility to adapt to an ever-changing global society. Becker College is committed to educating and empowering its students to become current and future leaders of society across all sectors of the economy, and the positive impact they can create.

HIP (Human Impact + Profit) Investor is an advisor on ESG and portfolio construction to Becker College's endowment. HIP rates investments on ESG, SDGs, and climate threat resilience, advises investors including endowments, and manages portfolios and strategies focused on ESG.

> MISSION: Becker College provides transformative learning experiences in a socially responsible, inclusive community–anchored by its Core Values–which promotes academic excellence, inspires innovation and entrepreneurship, fosters an agile mindset, and prepares graduates to contribute to a global society that is increasingly focused on change.

BECKER COLLEGE: HOW THE SUSTAINABLE INVESTING PROCESS OCCURRED

Becker College trustee Chris Provo, and president Dr. Robert Johnson, connected through impact/ESG advisor Joy Pettirossi-Poland, initiated the impact/ESG investing process, which aligned with the institution's mission. Through conversation with impact/ESG financial advisor R. Paul Herman of HIP Investor, they established a vision and commitment to go 100% ESG in the college endowment. After a process of Board educatioZn and consensus building, CFO David Ellis led the Investment Committee's evaluation towards this 100% ESG goal, incorporating it into the Investment Policy Statement, approved on June 30, 2017. Since then, the endowment has re-allocated its endowment towards ESG-aligned mutual funds, ETFs, and separately managed accounts (SMAs). The financial results over the past 2.5 years have resulted in higher total returns, lower volatility, higher alpha and Sharpe ratios, and lower beta, compared to the previous pre-ESG portfolio. The endowment has grown faster with ESG during this time frame, compared to the results of the before-ESG portfolio. Additional details on this process are available in a 2018 article in *Business Officer* magazine authored by Becker CFO David Ellis.[26]

BECKER COLLEGE: INVESTMENT POLICY STATEMENT

In 2015, the Board of Trustees mandated a 100% social impact goal for the College's endowment. The journey to a 100% social impact investment goal was completed on June 30, 2017, making Becker one of the first institutions of higher education to invest its full endowment toward positively impacting social, environmental, and economic sectors.

BECKER COLLEGE: PORTFOLIO CONSTRUCTION

Asset Classes	Asset Allocation 11/30/2019	Fund Managers *(Separately Managed Accounts in italics)*	Impact / ESG Focus
Fixed Income	31%	BlackRock	ESG integration
		Breckenridge SMA	100% ESG
		Calvert	100% ESG
		CCM	100% ESG
		Nuveen TIAA	100% ESG
		Pioneer	ESG integration
US Equities	49%	*ClearBridge* SMA	100%
		iShares	Traditional
		BlackRock SMA	ESG aware
		Delaware	Traditional
		Great Lakes SMA	ESG aware
		Miller/Howard SMA	ESG integration
		John Hancock	ESG aware (some 100% ESG with ESG sub-advisor)
		Principal	ESG aware
		State Street	ESG aware
Global Equities	13%	*Allianz* SMA	100% ESG
		BlackRock SMA	ESG aware
		WisdomTree	Traditional
Natural Resources	2%	Invesco Global Water ETF	100% ESG
Real Estate	4%	State Street	Traditional
		Vanguard	Traditional
Cash	1%	Morgan Stanley	ESG aware
Total	100%		ESG focused overall 52.1% HIP Rating (absolute impact), higher than 50 on 100 point scale is "net positive" 79.8% HIP Rating (relative to industry peers), higher than 75 on 100 point scale is top quartile

(Continued)

FEES

Becker's ESG approach has resulted in average fees dropping by 38%, as the Morgan Stanley platform has access to SMAs that are generally lower fees than ETFs and Mutual Funds. SMAs also can potentially be customized, if that SMA is not restricted to pooling funds across investors.

For Becker, the weighted-average fees as of 2019 for the ESG portfolio are 0.51% compared to 0.83% before the implementation of the ESG strategy.

PERFORMANCE

Becker's endowment has realized stronger total returns, lower risk, higher Sharpe ratios, more alpha, and lower betas with the ESG-focused diversified portfolio, compared to the previous before-ESG-focus portfolio.

The chart below demonstrates the returns of the before-ESG and after-ESG portfolios as calculated by Kwanti software, with the allocations of the actual portfolios from 6/30/2017 and at 11/30/2019.

The Board, Investment Committee, CFO, and current President, Dr. Nancy Crimmin, are very pleased with the results to date.

Becker College Endowment	Before ESG implementation	After ESG implementation	Delta among before- and after-ESG implementation
1-year results as of 11/30/2019			
Total Portfolio Returns	+20.3%	+21.3%	+1.0%
Risk (Standard Deviation)	11.3%	8.1%	(3.2%)
Sharpe ratio	1.64	2.34	+0.70
Alpha	-2.4%	+3.5%	+ 5.9%
Beta	0.82	0.59	(0.23)
3-year results simulation as of 11/30/2019			
Total Portfolio Returns	+8.8%	+10.2%	+1.4%
Risk (Standard Deviation)	9.5%	7.6%	(1.9%)
Sharpe ratio	0.75	1.08	+0.33
Alpha	-2.4%	+ 0.50%	+ 2.9%
Beta	0.75	0.61	(0.14)

Source: Becker College Endowment holdings, on Morgan Stanley platform, analyzed by HIP Investor, using Kwanti software.

The California State University

Long Beach, CA. Endowment: $33 million

The CSU Foundation approved a transition of its portfolio to an ESG mandate to better align with the values of the California State University. The global equity composite was the first portion of the portfolio to transition in July 2019. To date, the global equity composite is outperforming the MSCI AC World Net by 0.76% net of fees. Additionally, the transition to the new ESG portfolio lowered our composite expense ratio from 0.72% to 0.38%. In January 2020 we completed the transition of our fixed income investments to align with our ESG mandate. Our membership with IEN was a vital resource as we facilitated discussion with our board about how ESG would not negatively impact returns.

– Garrett Ashley, Vice Chancellor, University Relations and Advancement, The California State University

College of the Atlantic and Cambridge Associates

Bar Harbor, ME. Endowment: $46.5 million

COLLEGE OF THE ATLANTIC: ABOUT THE INSTITUTION

College of the Atlantic is a private, liberal arts institution in New England. Founded in 1969, a small group of educators and community members formed the College on the premise of using human ecology as a guiding, interdisciplinary approach to education. Today, the College's enrollment is approximately 350 students and awards bachelors and masters degrees focused on the discipline of human ecology.

> MISSION: College of the Atlantic enriches the liberal arts tradition through a distinct philosophy centered on human ecology. The College emphasizes integration of knowledge from all academic disciplines and personal experiences to investigate – and ultimately improve – the relationships between human beings and our social and natural communities.

COLLEGE OF THE ATLANTIC: SUSTAINABILITY COMMITMENT

- The College was one of the first colleges in the nation to divest from fossil fuels in 2013, with the primary focus being a desire to divest from companies with large fossil fuels reserves (unburnable carbon) on their balance sheets
- In 2006, the College was also the first in the country to become "carbon neutral," purchasing carbon offsets for its emissions
- The College fully divested from tobacco since 1983, temporarily divested from South African-based companies during apartheid, and fully divested from Exxon Mobil since 2006
- A portion of the Endowment is invested with local financial institutions to support the local community

(Continued)

From Research to Examples: Endowment Case Studies

(Continued)

COLLEGE OF THE ATLANTIC: HOW THE SUSTAINABLE INVESTING PROCESS OCCURRED

The College's mission centered on human ecology has enabled it to be a leader in sustainable investing, and to explore how its endowment can support the mission. In its 50-year history, the College has employed a small number of divestment campaigns to enhance the alignment between its mission and investments, to attract and retain students and faculty, and to catalyze change that reaches beyond its community.

College of the Atlantic's fossil fuel divestment campaign began in January 2013, with students and faculty members collecting signatures, researching the investment portfolio, and working with the administration to formulate a proposal to divest from companies with large holdings of reserves, as defined by the Carbon Underground 200. At a special meeting of the Board of Trustees on March 11, 2013, the student proposal was accepted. The College was able to fully divest its approximately $1 million in fossil fuel-related investments the next day on March 12 because of its straightforward and entirely liquid portfolio construction at the time. [27]

Since making the strategic decision to divest, the College has enjoyed distinct benefits for the campus community and its approach to sustainable investing. Being fossil fuel-free and reducing carbon risks are consistent with the mission and ethos of the College and has reinforced that mission to staff, students, alumni, community members, and donors that support the critical role the College plays in Maine and globally. Staff, faculty and student engagement has always been strong at College of the Atlantic, and divestment enabled these constituencies to further their learning and action on sustainable investing, enriching the experience for all parties. The College's Investment Committee is comprised of experienced investors and business leaders, and divestment has focused their time and insights on critical investment and portfolio construction opportunities. In doing so, this has promoted ongoing exploration of sustainable investments as the opportunity set expands along with the Endowment's size and capacity.

COLLEGE OF THE ATLANTIC: INVESTMENT POLICY STATEMENT

The overall financial objectives of the Endowment are (1) to support the current and future operations of the College and (2) to preserve the purchasing power of the Endowment in perpetuity.

The Investment Committee is responsible for review and oversight of the College's policies for investment screens related to tobacco and fossil fuels.

The College excludes companies which are the largest global holders of oil, gas, and coal reserves as defined by the Carbon Underground 200, which is a third-party list maintained by Fossil Free Indexes.

The College excludes from its portfolio any companies that derive a material portion of revenues from the manufacture of tobacco products.

COLLEGE OF THE ATLANTIC: TRACK RECORD

Since fully divesting from fossil fuels on March 12, 2013, the College has generated very strong absolute, relative, and risk-adjusted investment performance. (See performance section below.)

COLLEGE OF THE ATLANTIC: PORTFOLIO CONSTRUCTION

As the Endowment grew in size, the College embarked on a strategy in 2015 to diversify its Endowment into additional asset classes while remaining committed to fossil fuel divestment. The College's Investment Committee and its investment advisor, Cambridge Associates, developed an innovative approach that considers both explicitly screened investment strategies as well as non-screened strategies under a "Trust, but Verify" policy. The resulting portfolio is fully divested from fossil fuels and tobacco, consisting of 8 public equity managers (4 screened, 4 non-screened), 5 marketable alternative managers (1 screened, 4 non-screened), and 2 fixed income managers (2 screened).

COLLEGE OF THE ATLANTIC: MANAGERS

Of the 8 public equity managers, 3 are offered as separately managed accounts that can accommodate customized investor screens; 1 is offered as a fossil fuel-screened commingled fund; the final 4 non-screened investment managers are commingled funds that are unlikely to own large fossil fuel reserve holders and have complied with this requirement since the College invested. In the event of an instance of non-compliance, the College has a procedure in place to engage with the investment manager and take corrective action, if needed.

Of the 5 marketable alternative managers, 1 is a fossil fuel-screened commingled fund and the other 4 commingled funds invest in a specific non-fossil fuel economic sector and/or fossil fuel-free financial instruments.

The 2 fixed income managers are offered as separately managed accounts, one of which is managed by an investment firm that incorporates ESG considerations into its standard investment process and can accommodate highly customized screens.

COLLEGE OF THE ATLANTIC: FEES

The College achieved a substantial fee savings for investing at the launch of a new sustainably managed fund being offered by a longstanding and otherwise closed investment manager. The weighted average investment management fee for the College's fully divested Endowment is 0.75%. The College does not pay in excess of any investment manager's ordinary fee schedule for any of its investments.

COLLEGE OF THE ATLANTIC: PERFORMANCE

Since the College's divestment from fossil fuels in 2013, its +8.8% annualized return has ranked in the top quartile of all peer endowments and the top 1% of similarly-sized peer endowments. The College's return has also beaten a Simple 70/30 Benchmark (70% MSCI All Country World Index / 30% Bloomberg Barclays Aggregate Bond Index) return of +7.0% by +180 basis points per annum.

As of September 30, 2019	1 Year	3 Year	5 Year	Since Fossil Fuel Divestment (April 1, 2013)
College of the Atlantic	+4.2%	+8.9%	+7.6%	+8.8%
70% MSCI All Country World Index / 30% Bloomberg Barclays Aggregate Bond Index	+4.6%	+8.0%	+6.0%	+7.0%
Cambridge Associates U.S. Endowments & Foundations Median	+2.4% n = 370	+7.2% n = 369	+5.1% n = 366	+6.1% n = 359

(Continued)

Hampshire College and Prime Buchholz

Amherst, MA. Endowment: $53.4 million

HAMPSHIRE COLLEGE: ABOUT THE INSTITUTION

Located in Amherst, MA, Hampshire College has been a modern leader in intentional investment practices and sustainability. It has an enrolled student body of about 1,400 students and an endowment worth of just over $50 million. Hampshire has many sustainability initiatives across academics, campus operations and community engagement, and is committed to going carbon neutral by 2022.

> MISSION: The mission of Hampshire College is to foster a lifelong passion for learning, inquiry, and ethical citizenship that inspires students to contribute to knowledge, justice, and positive change in the world and, by doing so, to transform higher education.

HAMPSHIRE COLLEGE: HOW THE SUSTAINABLE INVESTING PROCESS OCCURRED

Hampshire College has a history of socially responsible investing (SRI). In 1976, Hampshire made a statement on social justice by beginning the movement to divest from South Africa. In 1977, the college established its official investment policy. Subsequently, in 1982 Hampshire adopted a comprehensive SRI policy and moved to divest from weapons contractors due to student concerns.

In 2011, the college officially aligned its investment policy with ESG criteria. This updated policy established the college's favored and disfavored investments, proxy voting guidelines, and emphasized positive screening as a strategy to align investments with the college's mission.

In 2012, having been approached by students to support divestment from fossil fuels, President Jonathan Lash asked the Board to review the college's portfolio and assess its holdings. The Investment Committee, along Prime Buchholz, continued to explore what it meant to divest from fossil fuels, and ultimately decided to use the "Carbon Underground 200" list, consisting of companies with the largest potential CO2 emissions based on fossil fuel reserves. Prime Buchholz provided an analysis of their traditional assets (equities and fixed income) to this list in September of 2013.

This analysis revealed an exposure of 2.3% in the equity portion of the portfolio (as compared to the S&P 500's 7.7%). The college's fixed income investments at the time were entirely invested in sovereign debt. Over the next two years, the college modified or replaced the equity funds that held companies in the Carbon Underground 200, with the result that in 2015 the exposure was considerably less than 1% across both traditional and alternative assets.

HAMPSHIRE COLLEGE: PORTFOLIO CONSTRUCTION, MANAGERS, AND FEES

Table: Breakdown of Hampshire College ESG Investments*

PERFORMANCE RELATIVE TO BENCHMARK								
	% of Portfolio	Since Hampshire College's Initial Investment	Date of Initial Investment	Since Fund's Inception (Annualized)	Fund Inception Date	Benchmark	Investment Minimum	Fees
Generation IM Global Equity Fund	22.8	5.6	Oct-12	6.5	Apr-05	MSCI World	$3 million	0.75
Boston Common Intl Sustainable Climate Fund	11.7	0.2	Oct-16	0.8	Jan-14	MSCI AC World ex USA	$2 million	0.95
Parametric SRI Large Cap Core Index Account	7.3	(0.7)	Jun-09	(1.0)	NA	Russell 1000	$500,000	0.45
Highclere Emerging Mkts SMID Fund	3.2	0.1	Jan-15	0.4	Jan-14	S&P Emerging Markets $2-10 Billion	$2 million	1.25
Alternative Investments Sustainability	6.1	0.9	Nov-15	(0.2)	Jul-15	HFRI FOF: Diversified	$1 million	1.90 (0.60 + 1.30 underlying manager fees)
Parnassus Core Equity Fund	5.5	0.1	Jun-16	1.3	Sep-92	S&P 500	$100,000	0.63
Pax World Global Env Mkts Institutional Fund	4.8	(1.7)	Jul-17	0.7	Apr-08	MSCI AC World	$250,000	0.99
Summit Partners Sustainable Opportunities	3.6	15.0	Dec-17	5.8	Nov-07	HFRI Equity Hedge	$1 million	1.50
Farallon Capital F5 Investors	3.0	4.3	Mar-19	3.0	Jul-15	HFRI Event-Driven	$5 million	1.00
TOTAL FUND	68.0							0.94

* *Data as of June 30, 2019. All performance is net of fees and performance for periods greater than one year is annualized.*

(Continued)

From Research to Examples: Endowment Case Studies

(Continued)

HAMPSHIRE COLLEGE: PERFORMANCE

Table: Hampshire College Endowment Performance as of 6/30/19

HAMPSHIRE COLLEGE ENDOWMENT PERFORMANCE (AS OF 06/30/2019)	
	5 YEAR ANNUALIZED PERFORMANCE (%)
Total Managed Fund	**5.5**
Policy Index	**4.2**
70% MSCI ACWI/30% Barclays Global AGG	**4.8**
Mean of Peer Endowments ($50-100m AUM) Reporting to NACUBO	**4.9**

North Carolina State University

Raleigh, NC. Endowment: $1.4 billion

In 2012, NC State received a gift commitment of $50 million with the stipulation that it be invested in a "socially responsible fashion." The NC State investment team established an ESG investing strategy in a parallel fund called the Sustainable Responsible Impact Fund (SRI Fund) through the NC State Foundation, an associated entity of the University. This strategy began in 2013 with $10 million invested in mostly negative screening strategies. As of June 30, 2019, all of the commitment has been received and is currently valued at $54.1 million, diversified across all asset class with approximately 63% in ESG investing strategies, 4.3% in Impact strategies, 30% in negative screening with the balance in cash. As of June 30, 2019, the SRI Fund has produced strong performance over the last 1, 3, and 5 years with an 8%, 12.8% and 8.6% return respectively, outperforming the Fund's benchmark, 70% MSCI ACWI/30% BB Barclays Aggregate by, 1.3%, 3.9% and 3.2% for the same time period. The Universities larger endowment returned 7.3%, 10.3%, and 7.6% for the 1, 3, and 5 year period ended June 30, 2019.

– Libby George, Director of Investments, North Carolina State University

†Rhode Island School of Design and Global Endowment Management

Providence, RI. Endowment: $350 million

ABOUT THE RHODE ISLAND SCHOOL OF DESIGN

Rhode Island School of Design is a private, nonprofit college founded in Providence, RI in 1877—making it one of the first art and design schools in the US. Approximately 2,500 students from around the world are engaged in liberal arts studies and rigorous, studio-based learning at RISD (pronounced "RIZ-dee"), where they earn bachelor's or master's degrees in 21 majors.

> MISSION: The mission of Rhode Island School of Design, through its college and museum, is to educate its students and the public in the creation and appreciation of works of art and design, to discover and transmit knowledge and to make lasting contributions to a global society through critical thinking, scholarship and innovation.

RISD: HOW THE SUSTAINABLE INVESTING PROCESS OCCURRED

Global Endowment Management, LP (GEM) is an outsourced chief investment office (OCIO) primarily serving mission-driven organizations with approximately $10 billion in total assets under management as of December 31, 2019. In 2017, the Rhode Island School of Design (RISD) engaged GEM as their OCIO. As a premier art and design school dedicated to pursuing artistic modes of engagement with the wider world and stewarding its human, financial and physical resources, RISD had a distinct interest in and inquired about the potential to divest from fossil fuels.

GEM developed a "Green Endowment" strategy that eliminated material exposure to fossil fuel strategies, defined as investments (including direct investments, co-investments, and funds) dedicated to investing in, extracting, or services related to extracting coal, oil, and natural gas reserves At the time, GEM's clients with similar risk and return objectives to RISD would have been allocated approximately 5% to fossil fuel strategies; the Green Endowment approach reduced this exposure to less than 1%.

RISD: STRATEGY DEVELOPMENT

GEM uses historical performance data and capital market assumptions to develop policy portfolios designed to meet client risk and return objectives. GEM applied the same methodology to develop the Green Endowment strategy to exclude fossil fuel strategies while targeting RISD's long-term risk and return objectives, which are similar to GEM's other endowment-style clients. This resulted in a mix of assets modeled to produce modestly higher returns and higher risk, over a 10-year time period, relative to portfolios that include fossil fuel investments.

RISD: STRATEGY IMPLEMENTATION

Having established the policy portfolio with asset allocation targets consistent with the RISD's risk, return, and values objectives, GEM allocated the portfolio to their investment pools across public and private equity, hedge funds, and real estate. For private real assets, GEM bisected its investments into two distinct pools, one with dedicated fossil fuel strategies and the other without, providing exposure to only the one without. Notably, GEM's traditional public equity and hedge fund managers are not prohibited from investing in "fossil fuel strategies"; however, they tend to hold much lower exposure to fossil fuels relative to their benchmarks given their relative preference for businesses with more durable economics and less commodity-price sensitivity. For example, as of December 31, 2019, RISD's exposure to fossil fuels was 0.16%, resulting from exposure within the public equity portfolio; this is materially less than the 4.8% exposure to fossil fuels for the MSCI ACWI.

Collaboration between RISD and GEM resulted in creative policy development, a flexible structure to integrate RISD's values into portfolio construction, and the significant reduction of private fossil fuel exposure. RISD is one of only a few institutions nationally to achieve a materially divested portfolio with transparency and clarity.

† The enclosed material are being provided for informational and discussion purposes only and do not constitute investment advice, or a recommendation, or an offer or solicitation, and are not the basis for any contract to purchase or sell any security, or other instrument, or for Global Endowment Management, LP to enter into or arrange any type of transaction as a consequence of any information contained herein. Any such offer or solicitation shall be made only pursuant to documents which will describe the risks and potential conflicts of interest related to an investment. No offer will be made or accepted prior to receipt by the offeree such documents, all of which must be read in its entirety. The strategy described herein may not be a suitable investment for you and could involve important legal, financial, fiscal and tax consequences and investment risks, which should be discussed with your professional advisors.

(Continued)

Unity College and Spinnaker Trust

Unity, ME. Endowment: $15 million

UNITY COLLEGE: ABOUT THE INSTITUTION

For over fifty years, Unity College has been preparing the next generation of environmental professionals and leaders to successfully face real-world challenges. They serve a broad range of students from all backgrounds across the U.S. — and the world. To be responsive to the rapidly changing needs of students and society, Unity College has adopted an enterprise model as its institutional organization, expanding the college into three distinct sustainable education business units: Distance Education, Flagship and Sustainable Ventures.

> MISSION: Through the framework of sustainability science, Unity College provides a liberal arts education that emphasizes the environment and natural resources. Through experiential and collaborative learning, our graduates emerge as responsible citizens, environmental stewards, and visionary leaders.

UNITY COLLEGE: HOW THE SUSTAINABLE INVESTING PROCESS OCCURRED

Unity College is part of Second Nature's Presidents' Climate Commitments, a national effort in higher education to address global climate change. By signing the commitment, Unity has pledged to implement plans that will make the campus climate neutral. Unity also led a national movement with their commitment to divest from fossil fuels.

In 2012 the Unity College Investment Committee and Board got interested in the idea of a fossil fuel-free (FFF) endowment portfolio. For years before that the Unity endowment fund had been very 'lite' big oil companies. This was a step further. They began an exploratory conversation with their investment management firm, Spinnaker Trust.

The first part of the discussion focused on the actual definition of FFF. After several conversations the committee and investment manager agreed that this list put out by 360.org, Carbon 200, was the list of stocks to divest from (this list is now maintained by Fossil Fuel Free Indexes).

The Investment Committee, Board and Investment Manager agreed that the portfolio would target owning less than 1% in total of those 200 names to constitute an FFF portfolio. Unity College gave Spinnaker 5 years to get to this target, but it took less than 9 months. By the summer of 2013 the Unity College endowment fund was fossil fuel-free.

Investment Policy Statement: Unity's IPS includes the following statement: "In keeping with the College's commitment to environmental sustainability, fossil fuel producers shall constitute less than 1% of the endowment portfolio."

UNITY COLLEGE: INVESTMENT POLICY, PORTFOLIO CONSTRUCTION, MANGERS AND FEES

- Track Record: The endowment fund has been fully fossil fuel-free since the summer of 2013.
- Portfolio Construction: 100 percent of the portfolio is in a sustainable investing strategy, across asset classes, including: U.S. Equity; International Equity; Fixed Income; Alternatives; Cash.
- Investment Manager: Spinnaker Trust, in Portland Maine, is the manager of the Unity College Endowment fund. The FFF portfolio model uses exchange-traded funds to get broad exposure in U.S. economic sectors and across international regions of the world. The fixed income portion of the portfolio is managed using a ladder of high-quality corporate bonds.
- Fees: Unity current pays the Spinnaker Trust Institutional fee schedule. There is no extra charge for being in the fossil fuel free portfolio model.

Spinnaker Trust Institutional Fee Schedule	
0.60%	first $1,000,000
0.40%	next $2 million
0.35%	next $2 million
0.30%	over $5 million

UNITY COLLEGE: PERFORMANCE

From September 2013 through August 31, 2019, Unity College's full fossil-fuel-free gross returns have been 6.6% annualized.

Description	Weight	Year to Date Gross Return	2018 Gross Return	2017 Gross Return	2016 Gross Return	2015 Gross Return	2014 Gross Return	Unity College Full FFF Gross Return
US EQUITIES								
US EQUITIES Total	41.3%	17.1%	(4.3%)	22.2%	7.8%	2.4%	14.8%	11.5%
S&P 500 Composite		18.3%	(4.4%)	21.8%	12.0%	1.4%	13.7%	12.1%
INT'L EQUITIES								
INT'L EQUITIES Total	21.4%	8.8%	(10.1%)	25.5%	(5.8%)	0.4%	(3.3%)	3.1%
MSCI All Country World Index X – US Net		8.8%	(14.2%)	27.2%	4.5%	(5.7%)	(3.9%)	2.8%
FIXED INCOME								
FIXED INCOME Total	26.7%	6.5%	0.5%	2.2%	3.1%	1.5%	2.6%	2.8%
Bloomberg Barclays US Aggregate		9.1%	0.0%	3.5%	2.6%	0.6%	6.0%	3.6%
ALTERNATIVES								
ALTERNATIVES Total	7.4%	11.7%	(2.5%)	11.6%	5.8%	(3.0%)	6.6%	5.3%
CASH AND EQUIV.								
CASH AND EQUIV. Total	3.2%	1.6%	1.5%	0.7%	0.3%	0.1%	0.0%	0.7%
ICE BofAML US 3-Month Treasury Bill		1.6%	1.9%	0.9%	0.3%	0.1%	0.0%	0.8%
TOTAL	100.0%	11.5%	(4.2%)	16.1%	3.6%	1.4%	6.1%	6.6%

(Continued)

University of New Hampshire

Durham, NH. Endowment: $247 million

Following several years of extensive student activism and campus conversations, the University of New Hampshire Foundation established an ESG pool in 2015. This pool has since grown to $42 million (17% of total assets under management), thanks primarily to transfers in 2018 from the Main (unconstrained) pool of several large endowed funds focused on environmental education or governance education programs. While the timeframes are not long, performance over the last two years has been strong across the board for the 13 ESG-qualified funds in comparison to their benchmarks, with the exception of a single fund in our inflation-hedging real assets segment. The investment committee has sought to mimic the asset allocation framework of the Main pool, but the ESG pool is somewhat more heavily weighted to equities, and with a much smaller hedge fund segment and no private equity allocations. As a result, the ESG pool has materially outperformed the main pool over the last two years. The Foundation is encouraged by these results and especially relative to benchmarks, and expects the corpus of the ESG pool to grow significantly through the addition of new endowed funds in the upcoming campaign.

– Erik Gross, Associate VP– Finance & Administration, and Treasurer of the UNH Foundation, University of New Hampshire

University of California

Oakland, CA. Endowment: $13.4 billion (total portfolio: $126 billion)

UNIVERSITY OF CALIFORNIA: ABOUT THE INSTITUTION

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. The UC system includes more than 280,000 students and more than 227,000 faculty and staff, with 2.0 million alumni living and working around the world. Our campuses are routinely ranked among the best in the world, but our reach extends beyond campus borders. Our students, faculty, staff and alumni exchange ideas, make advancements and unlock the secrets and mysteries of the universe every day. They engage with their local governments, serve California schools, protect the environment and push the boundaries of space.

> MISSION: The distinctive mission of the University is to serve society as a center of higher learning, providing long-term societal benefits through transmitting advanced knowledge, discovering new knowledge, and functioning as an active working repository of organized knowledge. That obligation, more specifically, includes undergraduate education, graduate and professional education, research, and other kinds of public service, which are shaped and bounded by the central pervasive mission of discovering and advancing knowledge.

UNIVERSITY OF CALIFORNIA: HOW THE SUSTAINABLE INVESTING PROCESS OCCURRED

The University of California formally began its sustainable investing journey in 2014. At that time Jagdeep Bachher joined as Chief Investment Officer,
and there was an active student-driven fossil fuel divestment campaign across many of the UC campuses. Through a process of stakeholder engagement that included students, faculty, staff, administrative leadership and the UC Regents, the UC Investment Office began implementing a series of steps related to sustainable investing."

In 2014 they became the first public university to sign the Principles for Responsible Investment (PRI). In 2015, they published a Framework for Sustainable Investing that guides their approach to ESG investing.[28] That year, they also sold their exposure to coal and oil sands because they felt they were too risky. In 2016, they became a Founding Member of the Intentional Endowments Network. In 2018, the UC Regents updated their Investment Policy to explicitly include the consideration of ESG factors in investment decision making.

The UC has a five-year goal of investing $1 billion in clean energy solutions by 2020. As of 2019, UC had committed more than $725 million, contributing to the installation of 4.9 gigawatts of solar and wind generation in the U.S., Canada, Japan, India, the United Kingdom and Mexico.[30]

In September 2019, the UC announced a commitment to fossil fuel-free investing in order to reduce the risks associated with the potential for stranded assets. In an opinion piece in the LA Times announcing the commitment, Bachher and UC Regent Richard Sherman provided the following update on the UC's sustainable investing progress as it relates to financial performance of the endowment, and broader investment portfolio, including the UC's pensions:

> "Today, we are on track to beat our own five-year goal of investing at least $1 billion in climate change solutions and, by incorporating environmental, social and governance factors — ESG factors — into our investment decision-making, we've become better stewards of university funds…"
>
> …In April 2014, when Jagdeep arrived to become UC's chief investment officer, UC Investments had a total of $91.6 billion in assets under management. As of June 30, [2019] the total portfolio stood at $126.1 billion. In five years, that includes $2.4 billion in value added above our benchmarks and a savings of $1 billion in reduced costs of management.[31]

Since 2014, when the UC committed to integrating ESG criteria into investment processes by signing the PRI, the endowment has consistently outperformed its benchmarks, as shown in the Table below.

UNIVERSITY OF CALIFORNIA: PERFORMANCE

University of California, UC Investments, Endowment Performance [32]

Net Returns (%) Market Value Annualized Returns As of June 30, 2019	Market Value	Annualized Returns		
		1 Year	3 Year	5 Year
UC Endowment	**$13.4 billion**	**8.2%**	**10.7%**	**6.8%**
Endowment Policy Benchmark*		**5.7%**	**8.9%**	**5.6%**

**The UC Endowment Benchmark is a weighted average of investment policy targets.*

(Continued)

Warren Wilson College

Swannanoa, NC. Endowment: $52 million

Warren Wilson College has divested from companies with the greatest fossil fuel reserves, both because they are antithetical to our mission to “prepare graduates to … lead purposeful lives dedicated to fostering a just, equitable, and sustainable world” and because we believe that those reserves are overvalued, and likely to lose value as the global community moves to address climate change. With the exception of emerging markets equity where we have taken a quantitative fossil fuel free approach, we invest passively, using separate account managers who will optimize to a selected benchmark after removing the companies with the greatest fossil fuel reserves from the portfolio. We use traditional market benchmarks to assess the performance of these investments. To date, the passive portfolios have performed in line with their benchmarks since the inception of our investment, and the emerging markets portfolio has slightly outperformed its benchmark.

– Anthony Rust, Investment Committee Chair, Warren Wilson College

SUMMARY OF FOUNDATION CASE STUDIES

Adapted from "Divest Invest Philanthropy: Five years after launch"[33]

Foundation	Consultant / OCIO	Sample of Managers	Performance Statement
Joseph Rowntree Charitable Trust (JRCT)	Nicola Parker	Generation IM Global Equity Fund Impax Environmental Markets PLC Impax Asian Environmental Markets Fund Liontrust Sustainable Future UK Growth Fund Royal London Sustainable Leaders Trust Stewart Investors Asia Pacific Sustainability Fund Stewart Investors Worldwide Sustainability Fund Ethical Property Company Ethical Property Europe Social Justice and Human Rights Centre	"There is a great misconception that if you aren't in fossil fuels, you will lose performance," says Jackie Turpin, the Trust's Head of Finance. "Our returns show otherwise." Since adopting a fossil fuel-free strategy six years ago, JRCT has outperformed benchmarks by 2.4% (using a composite of the MSCI World and FTSE All-Share Indices).
Sierra Club Foundation (SCF)	Fund Evaluation Group	Shelton Green Alpha Mutual Fund Breckenridge Capital Investment Grade Fixed Income Focus Boston Common ESG Impact International Fund Pax Global Environmental Mutual Fund Greenbacker Capital Trillium Asset Management Mutual Funds Private Placements in: PRIME Coalition Fund, Navajo Power, Seventh Generation Fund	SCF's diversified portfolio across fossil-fuel-free, value aligned managers and funds is outperforming benchmarks and continues to generate returns for the foundation. As the climate solutions investment universe continues to change and evolve, SCF has seen an increase in climate solutions funds become more accessible for investors.
Rockefeller Brothers Fund (RBF)	Perella Weinberg Partners, Agility	Generation IM Climate Solutions Fund II Vision Ridge Sustainable Asset Fund I and II New Energy Capital Infrastructure Credit Fund I and II Mainstream Renewable Power Africa Holdings Limited Ambienta III	As of December 2018, only 1.3% of the RBF's portfolio still had some exposure to fossil fuels, with less than 0.1% remaining in any coal or tar sands holdings… Today, around 14% of the RBF's endowment is committed to impact investments that support climate solutions and other priorities of the Fund's mission. Like the rest of the RBF's investments, these funds seek to provide market-rate, risk adjusted return characteristics.
Educational Foundation of America (EFA)	RBC SRI Wealth Management Group	Generation Climate Solutions North Sky Capital DBL Partners Alternative Investment Group Sustainable Fund Private Placements in: DBL, DocuSign, Farmer Business Network, 7th Generation, Tesla	Over the past five years,the foundation has outperformed its benchmark by 1.89% per year (8.49% net for EFA versus 6.6% for the benchmark).

Conclusion

The studies and examples in this report show that sustainable investing strategies can yield strong financial performance. Like any investment strategy, some approaches will be more successful than others, depending on a variety of complex factors, from portfolio construction to the skill of individual managers.

However, the demographics and science are clear: our increasing demand on natural systems globally and increasing inequality threaten to undermine the sustainability of our relatively stable and complex global economy.

Those companies that understand the risks these trends represent to their business (even if they are indirect in time or space), and those that are prepared to be innovative and create the new business models and solutions, will be better positioned for financial success. Higher education institutions that prepare their students for these risks and opportunities will remain relevant; and only those that align their operations and investments with that mission as well will thrive.

As the growing body of research shows in aggregate, and individual investors' experiences bear out, the choice to incorporate ESG considerations can contribute to global progress without harming individual performance. Endowment fiduciaries must ask themselves what the road forward looks like for their unique institutions, but can learn from peers about the common steps:

- Understanding this body of evidence;
- Reaching consensus about institutional and investment goals;
- Establishing an investment policy that reflects both the best evidence and unique institutional goals;
- Continually assessing the portfolio, re-aligning investments, and monitoring their financial performance and broader impact; and
- Communicating and being transparent about the journey.

In addition to debunking the myths around the financial performance of sustainable investing, IEN members are sharing tools to implement institution-appropriate strategies. These include Primers on Intentionally Designed Endowment Investing, Gender Lens Investing, and Diversity, Equity, and Inclusion in Endowment Investing; guides to identifying, working with, and evaluating investment consultants and managers for sustainable strategies; and toolkits for engaging stakeholders including students, faculty, student-managed investment funds, and retirement funds.

As the field evolves, IEN members will continue to develop tools and resources to maximize their endowments' contribution to the health of both their own institutions and their broader society and economy.

We invite you to explore these tools through the Intentionally Designed Endowment Roadmap at www.intentionalendowments.org/roadmap.

Appendix I – Select Research Reports

Allocating Capital for Long-Term Returns: The Strengthened Case for Sustainable Capitalism | Generation Foundation. May 2015
https://www.genfound.org/media/1131/advocacy-1-allocating-capital-for-long-term-returns.pdf

Decomposing the Value Effects of Sustainable Investment: International Evidence | Devine, Avis and Steiner, Eva Maria and Yönder, Erkan. February 2017. https://ssrn.com/abstract=2920788

Divest Invest Philanthropy: Five Years After Launch | Christi Electris, Kristin Lang, and Olive Watkins. The Croatan Institute. October 2019. http://croataninstitute.org/total-portfolio/publication/divest-invest-philanthropy-2

Divestment from Fossil Fuels: The Financial Case | Tom Sanzillo, Kathy Hipple, and Clark Williams-Derry. Sightlines and the Institute for Energy Economics and Financial Analysis. July 2018.
http://ieefa.org/wp-content/uploads/2018/07/Divestment-from-Fossil-Fuels_The-Financial-Case_July-2018.pdf

ESG and Financial Performance: Aggregated Evidence from More than 2000 Empirical Studies | Friede, Gunnar and Busch, Timo and Bassen, Alexander. Journal of Sustainable Finance & Investment, Volume 5, Issue 4, p. 210-233. October 2015. https://ssrn.com/abstract=2699610]

ESG from A to Z | BofA Global Research. November 2019.
https://www.bofaml.com/en-us/content/esg-investing-research-report.html

Evidence on the Financial Performance of Impact Investments | Global Impact Investing Network. November 2017.
https://thegiin.org/research/publication/financial-performance

The Financial Performance of Impact Investing Through Private Debt | Global Impact Investing Network & Symbiotics. April 2018. https://thegiin.org/research/publication/private-debt

The Financial Performance of Real Assets Impact Investments: Introducing the Timber, Real Estate, and Infrastructure Impact Benchmarks | Global Impact Investing Network & Cambridge Associates. May 2017.
https://thegiin.org/research/publication/real-assets-impact-investments

Fossil Fuel Divestment and Portfolio Performance | Arjan Trinks, Bert Scholtens, Machiel Mulder, and Lammertjan Dam. Ecological Economics, vol. 146, issue C, 740-748. January 2018.
https://econpapers.repec.org/article/eeeecolec/v_3a146_3ay_3a2018_3ai_3ac_3ap_3a740-748.htm

The Global Fossil Fuel Divestment and Clean Energy Investment Movement | Arabella Advisors. 2018.
https://www.arabellaadvisors.com/wp-content/uploads/2018/09/Global-Divestment-Report-2018.pdf

Invest for Good: A Healthier World and a Wealthier You | Mark Mobius, Carlos von Hardenberg and Greg Konieczny. Bloomsbury Business. 2019.

Investor implications of divesting from fossil fuels | Irene Henriques and Perry Sadorsky. York University. Global Finance Journal. Volume 38, Pages 30-44. November 2018. https://doi.org/10.1016/j.gfj.2017.10.004

MIRA ESG Survey Report | Macquarie Infrastructure and Real Assets. January, 2020.
https://www.mirafunds.com/assets/mira/our-approach/sustainability/MIRA%20ESG%20Report%202020.pdf

The positive impact of ESG investing on bond performance | Barclays. October 2016.
https://www.investmentbank.barclays.com/our-insights/esg-sustainable-investing-and-bond-returns.html

The Race of Our Lives, Revisited | Jeremy Grantham. GMO. August 2018.
https://www.gmo.com/americas/research-library/the-race-of-our-lives-revisited/

Acknowledgments

CO-AUTHORS:

Georges Dyer, Executive Director, Intentional Endowments Network

Alice DonnaSelva, Managing Director, Intentional Endowments Network

Hannah Bowen, Network Manager, Intentional Endowments Network

WITH INPUT AND FEEDBACK FROM CASE-STUDY PARTICIPANTS, INCLUDING:

Jeff Mindlin, **Arizona State University**

David Ellis, **Becker College**

Garret Ashley and Aaron Moore, **California State University**

Peter Tooher, Drew Landry, Sylvia Banda, and Tom Mitchell, **Cambridge Associates**

Darron Collins and Henry "Hank" Schmelzer, **College of the Atlantic**

Meredith Heimburger, **Global Endowment Management**

Ed Wingenbach, Tom Dybick, and Catherine Smith, **Hampshire College**

Paul Herman, **HIP (Human Impact + Profit) Investor**

Libby George, **North Carolina State University**

Ian MacPherson, Kate Dumas, Valentina Dingle, and Chris Caseley, **Prime Buchholz**

Sara Lewis, **Spinnaker Trust**

Erik Gross, **University of New Hampshire**

Melik Khoury, **Unity College**

Anthony Rust, **Warren Wilson College**

WE ARE VERY GRATEFUL TO THE FOLLOWING PARTIES FOR MAKING THIS REPORT POSSIBLE:

The Denver Foundation for its generous support for this report.

Members of the Intentional Endowments Network, whose support and engagement make this work possible.

See the full list of IEN members at www.intentionalendowments.org/network_members

FEBRUARY 2020

Footnotes

[1] *The Intentionally Designed Endowment Roadmap*. Intentional Endowments Network. February 2019. https://www.intentionalendowments.org/roadmap

[2]*Primer: Intentionally Designed Endowments*. Intentional Endowments Network. April 2014, updated August 2019. https://www.intentionalendowments.org/primer

[3]*The Business Case for ESG*. Intentional Endowments Network, 2016. http://www.intentionalendowments.org/the_business_case_for_esg

[4]*Emerging Strategies for SRI/ESG in College and University Endowments.* NACUBO and TIAA. Presentation at NACUBO 2020 Endowment and Debt Management Forum. Steffon M. Gray. February 2020

[5]*ESG and Financial Performance: Aggregated Evidence from More than 2000 Empirical Studies.* Friede, Gunnar and Busch, Timo and Bassen, Alexander. Journal of Sustainable Finance & Investment, Volume 5, Issue 4. October 22, 2015. p. 210. https://ssrn.com/abstract=2699610

[6]Ibid. p. 212.

[7]*Investment Funds with High Sustainability Ratings Outperform S&P 500: Barron's. Environment + Energy Leader.* January 2020. https://www.environmentalleader.com/2020/01/investment-funds-with-high-sustainability-ratings-outperform-sp-500-barrons/

[8] *ESG from A to Z. BofA Global Research.* November 2019. https://www.bofaml.com/en-us/content/esg-investing-research-report.html

[9]*The risk-adjusted return potential of integrating ESG strategies into emerging market equities.* Matthew W. Sherwood and Julia L. Pollard. May 2017. https://www.tandfonline.com/doi/full/10.1080/20430795.2017.1331118?src=recsys

[10]*Invest for Good: A Healthier World and a Wealthier You.* Mark Mobius, Carlos von Hardenberg and Greg Konieczny. Bloomsbury Business. 2019. p. 200.

[11]The positive impact of ESG investing on bond performance. Barclays, October 2016. https://www.investmentbank.barclays.com/our-insights/esg-sustainable-investing-and-bond-returns.html

[12]*Does Sustainability Affect Private Equity Asset Class?* Claudio Zara. March 2018.). https://ssrn.com/abstract=3152973

[13]*MIRA ESG Survey Report.* Macquarie Infrastructure and Real Assets, January, 2020. https://www.mirafunds.com/assets/mira/our-approach/sustainability/MIRA%20ESG%20Report%202020.pdf

[14]*Decomposing the Value Effects of Sustainable Investment: International Evidence.* Devine, Avis and Steiner, Eva Maria and Yönder, Erkan, February 2017. https://ssrn.com/abstract=2920788

[15]*The Race of Our Lives, Revisited.* Jeremy Grantham, GMO. August 2018. https://www.gmo.com/americas/research-library/the-race-of-our-lives-revisited/

[16]Ibid. pgs. 30-31

[17]*Divest Invest Philanthropy: Five Years After Launch.* The Croatan Institute. October 2019. p. 1. http://croataninstitute.org/total-portfolio/publication/divest-invest-philanthropy-2

[18] Ibid. p. 1

[19]Ibid. p. 16

[20]Ibid. p. 2

Footnotes *(Continued)*

[21]*Divestment from Fossil Fuels: The Financial Case.* p. 5
http://ieefa.org/wp-content/uploads/2018/07/Divestment-from-Fossil-Fuels_The-Financial-Case_July-2018.pdf

[22]*Fossil Fuel Divestment and Portfolio Performance.* Abstract.
https://econpapers.repec.org/article/eeeecolec/v_3a146_3ay_3a2018_3ai_3ac_3ap_3a740-748.htm

[23]*Divestment from Fossil Fuels: The Financial Case*. p. 3.
http://ieefa.org/wp-content/uploads/2018/07/Divestment-from-Fossil-Fuels_The-Financial-Case_July-2018.pdf

[24]*Examining the Impact of Fossil Fuel Divestment on University Endowments.* Christopher J. Ryan, Jr. & Christopher R. Marsicano. December 2019. p. 4. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3501231

[25]Ibid. p. 42

[26]*Matching Investments to Mission.* David A. Ellis. Business Officer Magazine. March 2018.
https://www.businessofficermagazine.org/features/matching-investments-to-mission/

[27]Excerpts from College of the Atlantic's website. https://www.coa.edu/about/environmental-commitment/investment/

[28]*UC Sustainable Investing Framework.* University of California, Office of the Chief Investment Officer. 2015.
https://www.ucop.edu/investment-office/_files/sustainable-investment-framework.pdf

[29]*University of California Retirement Plan Investment Policy Statement.* March 2018.
https://www.ucop.edu/investment-office/_files/invpol/UCRP_IPS_03-15-18.pdf

[30]*Annual Report on Sustainable Practices.* University of California. 2019.
https://www.ucop.edu/sustainability/_files/annual-reports/sustainability_report_2019_final.pdf

[31]*Opinion: UC investments are going fossil free. But not exactly for the reasons you may think.* Jagdeep Bachher and Richard Sherman. LA Times, September 17, 2019.
https://www.latimes.com/opinion/story/2019-09-16/divestment-fossil-fuel-university-of-california-climate-change

[32]*Endowment Investment Review as of June 30, 2019.* University of California. UC Investments.
https://www.ucop.edu/investment-office/_files/invinfo/coi_2019_q2_gep.pdf

[33]*Divest Invest Philanthropy: Five Years After Launch.* The Croatan Institute. October 2019. pgs. 22-28.
http://croataninstitute.org/total-portfolio/publication/divest-invest-philanthropy-2

Intentional
Endowments
Network

An initiative of
CraneSustainability.org