

MEMORANDUM

To: Members of the Advisory Committee on Socially Responsible Investing
From: Kenneth J. Feld, Chairman of the Board of Trustees
Date: September 20, 2016
Re: Proposals of the Advisory Committee on Socially Responsible Investing Recommending University Actions on Fossil Fuel Investments and Climate Change.

At the April Board of Trustees meeting, Trustee Richard Reidy, Chairman of the Advisory Committee on Socially Responsible Investing (ACSRI), introduced the ACSRI's proposals recommending University actions on fossil fuel investments and climate change.

In accordance with its established process, the Board referred these proposals to the Executive Committee for consideration. The Executive Committee engaged in careful analysis and extensive discussion of the ACSRI's proposals at its regularly scheduled May meeting and again at a special meeting held in August. Through these deliberations, the Committee reached consensus on recommendations to be presented to the Board at its September meeting.

The ACSRI's three proposals are set forth in bold below. Following each proposal, I have indicated, in italics, comments and recommendations reflecting the consensus of the Executive Committee.

ACSRI PROPOSAL 1:

To signal the importance of, and the University's commitment to, the global effort to reduce the human carbon footprint, the University should, within its endowment, prohibit new and divest of any existing direct investments in those companies that (a) continue to explore for new fossil fuel reserves of any kind since the global fossil fuel reserves are estimated to be larger than the amount that can be used and still remain under the accepted estimated warming limit of 2 degrees Celsius or (b) extract coal and tar sands, the most carbon-intensive fuels, until, in the University's judgment, those companies curtail such activities to drive their carbon footprint to acceptable levels.

This proposal must be undertaken in concert with the requirement to meet the University's fiduciary duties to its endowment.

Executive Committee Comments and Recommendation on Proposal 1:

The Executive Committee considered this proposal in the context of the Board's stated principles governing consideration of divestment proposals. These principles are as follows:

- a. *When the Board, acting on behalf of the University, is asked to prohibit investments of the endowment in a given industry or in companies doing business with a particular government, it is being asked to express an opinion or take action on an external social or political issue that, in the overwhelming majority of cases, is not directly related to the operations of the University.*
- b. *A fundamental goal of Boston University is to create an environment in which an academic community can productively consider, discuss, and debate a variety of viewpoints on social and political issues and that encourages freedom of inquiry. Such conditions allow scholars to pursue knowledge according to standards of evidence and logic without the encumbrance of an institutional position that may dampen discussion of alternative views. When the University, as an entity, adopts a single viewpoint or takes action relating to divestment, it risks undermining that goal. Therefore, non-investment or divestment actions based on social or political principles should be very rare and occur in only the clearest of circumstances, and should be judged to withstand the test of time in terms of how the wisdom of the University's decision will be judged by future generations.*
- c. *Such circumstances exist only when (i) the degree of social harm caused by the actions of the firms in the asset class is clearly unacceptable; and (ii) any potential negative consequences of the decision (including the risk of censorship of competing views within the University or the risk that the wisdom of the decision will fail to withstand the test of time) are clearly outweighed by the importance of taking the divestment action in order to lessen or mitigate the social harm.*

Following discussion, and after taking these principles into account, the Executive Committee proposed:

1. *That the University commit, on a best efforts basis, to avoid investing in coal and tar sands extractors; perfect implementation cannot be assured, however, given the University's inability to have total investment control due to the endowment's extensive use of (a) commingled investment vehicles for which the investment manager has complete investment authority and (b) passive index-linked investments.*
2. *That the Investment Committee be asked to report to the Board of Trustees at least annually on its experience with the above commitment.*
3. *That the Board revisit this issue every five years, or more often as economic, climatic, technological, and other developments may warrant.*

ACSRI PROPOSAL 2:

In order to speed up the global effort to reduce the human carbon footprint, the endowment investment office should seek to include managers who specialize and have expertise in renewable energy sources and/or technologies focused on the reduction of greenhouse gas emissions. It is expected that the number of institutional quality "green" investment products will continue to grow in the future, which will offer an expanding opportunity set for the endowment investment office to consider.

This proposal, like number 1 above, must be undertaken in concert with the requirement to meet the University's fiduciary duties to its endowment.

Executive Committee Comments and Recommendation on Proposal 2:

This recommendation describes the University's current approach, although it was undertaken in the normal course of operations and is not set forth in a formal investment policy. The Executive Committee recommended that the Board of Trustees endorse this investment strategy.

ACSRI PROPOSAL 3:

In order to increase the University's commitment to and focus on sustainability across teaching, research and operations, the University should develop and incorporate into its Strategic Plan a detailed Climate Action Plan (the "CAP") that should outline specific near, intermediate and long-term plans and associated goals for markedly increasing:

- a. The amount of energy sourced from green alternative power producers (e.g., solar and/or wind either via the University's power purchasing arrangements or on-campus installations);**
- b. Energy use efficiency to reduce power demand;**
- c. Educational opportunities for students to understand climate change, its ramifications, the need to solve the problem in their lifetimes and explore mitigation and adaptation strategies;**
- d. The University's cross-disciplinary coordination and support of research related to climate change, mitigation and adaptation;**
- e. The understanding of all community members (students, faculty and staff) that their individual choices and actions can have a profound impact on reducing the University's (and their own personal) carbon footprints; and**
- f. The University's preparation for the possible effects of future climate change on its physical plant.**

The CAP should include implementation time frames, associated costs and funding sources, as appropriate, articulate specific measurable goals with respect to both sourcing greener energy and reducing overall energy demand, and be a living document that is continuously refreshed and updated. Also, given its inclusion in the University's Strategic Plan, the CAP should be posted publicly on the University's website and progress, with respect to its contents, should be regularly reported to the Board of Trustees and the community.

Recognizing that the operating budget is a zero-sum proposition and that preservation of intergenerational equity for endowment distributions is important, the entire community will bear the burden of the compensating operating budget pressures (e.g., reduced student services, employee compensation, financial aid and/or tuition increases). However, the savings generated by the University's efforts to reduce overall energy demand should partially offset this burden.

Executive Committee Comments and Recommendation on Proposal 3:

It was the Executive Committee's judgment that this step is well considered and will give the University a roadmap to prudently address the risks associated with climate change. If endorsed by the Board of Trustees, the administration will develop such a CAP and bring it back to the Board for review and possible inclusion in the University's Strategic Plan.

Decision of the Board of Trustees

At its meeting on September 16, 2016, the Board of Trustees, following extensive discussion, voted unanimously to endorse each of the three recommendations from the Executive Committee.

To carry out the Board's endorsement of the third recommendation, I am asking President Brown, in consultation with such others as he deems appropriate, to develop a Climate Action Plan for review and consideration by the Board of Trustees.

On behalf of the Board of Trustees, I would like to thank the Advisory Committee on Social Responsibility for its important work in providing the University community with a framework and forum for the consideration of and civil discourse on important issues such as those discussed above.