



May 17, 2013

TO: American University Community
FROM: Jeffrey A. Sine, Chair, Board of Trustees
SUBJECT: Action on Proposals Related to Socially Responsible Investment

Today, the Board of Trustees directed AU's CFO and Vice President Don Myers to explore and recommend a charge and potential membership for a standing university investment advisory committee that would evaluate the role of social responsibility in endowment investment decisions, including holdings tied to companies that produce fossil fuels. The board requested that these recommendations be presented to its Finance and Investment Committee at its next meeting.

An appointed student representative, Ben Johnson, thoughtfully presented a proposal by AU's student organization, Fossil Free AU to the Finance and Investment Committee. Following the proposal, the committee acknowledged the significance of climate change and understood that this important issue is being discussed on college campuses across the nation. They were willing to consider the role that socially responsible investments might play in AU's larger sustainability efforts, which include a commitment to be carbon neutral by 2020, already resulting in leadership on green energy purchases, the largest deployment of solar panels in the city of Washington, and a program to encourage public transportation, bicycles or alternative fuel Zipcars by employees and students.

While the committee acknowledged that the proposal was well informed, the specific request to enact a negative screen on investments and to divest from a group of companies raised other tough questions that require further evaluation:

- What is the risk adjusted difference in return expectations associated with any specific portfolio recommendation?
- Should the university's investments be driven by socially responsible considerations, even if it means a loss of investment returns that fund other important university priorities?
- Whose values govern the decision to divest or screen investments when there are multiple perspectives at AU on many important issues?
- What is our obligation to prior donors to our endowment who may have a different or contrary view?
- How will the board reinforce the university's commitment to sustainability, or to other important values that may compete for investment scrutiny, while

complying with its statutory requirements and fiduciary responsibilities as the university's governing body?

- What is the most effective means of reinforcing our values? Should investments be withheld from some funds, or should some investments be affirmatively made in SRI funds?
- How can investments for a modest portfolio, managed primarily through commingled funds to improve access to investment opportunities, avoid specific companies?
- How should the board treat investment in an energy company whose business is comprised of both fossil fuels and some of the largest developments in alternative energies?

These are complex questions that require research and deliberation by interested and committed members of the AU community, working to consider answers in the context of best practices in higher education. Our investment advisors, Cambridge Associates, reported to the committee that the conversation about fossil free investments is active at 320 colleges and universities. Of Cambridge's 209 higher education clients, 24 are exploring SRIs and four are actively engaging in SRIs. None has divested from fossil free companies. In fact, only a few small colleges with small endowment portfolios have divested or have announced their intent to do so. However, several institutions with sizeable endowments and similar missions, including Amherst, Georgetown, Stanford, and Harvard, have established standing committees on investor responsibility to consider these and similar issues and provide advice and regular input to the board.

For these reasons, the board expects the AU community to actively participate in the review of higher education models for a university investment advisory committee. In late August, when students and faculty return to campus, Don Myers will lead an inclusive process to review advisory structures, form a recommended committee charge or scope, and membership. The vice president's recommendations will be presented to the board's Finance and Investment Committee at its next meeting in November 2013.

On behalf of the entire board and the university administration, I want to commend our students, faculty, staff, and alumni for their passion, preparation, and determination to effect meaningful change on the issue of climate change. The Board of Trustees understands and applauds your commitment, and we look forward to working with you to develop thoughtful answers to the complex questions that remain.