

A Supplementary Guide to the AASHE STARS Investment Section

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Introduction

As a member of the STARS Technical Advisor Work Group on investments and the executive director of a group that works with colleges and universities on responsible investment, I've seen a variety of concerns expressed by people at different institutions about how to best answer the questions in the Investment section of STARS, both being honest and scoring the points that they deserve. This section has confused people for different reasons, from difficulty evaluating investments to lack of understanding of a Committee on Socially Responsible Investment or as we call it, a Committee on Investor Responsibility (CIR).

In this document I hope to answer many of the questions that people have and clarify the scoring system. This is not meant to be a definitive answer but a guide to thinking about and answering the questions that you might have. It is important to note that one of the purposes of the STARS program is to help institutions improve their sustainability. Answering this section to the best of the institution's ability can do that.

Please feel free to contact STARS (stars@aaashe.org) with any questions about this or about the Investment section.

Starting the Investment Section

According to the STARS Technical Manual:

This subcategory seeks to recognize institutions that make investment decisions that promote sustainability. Most institutions invest some of their assets in order to generate income. Together, colleges and universities invest hundreds of billions of dollars. Schools with transparent and democratic investment processes promote accountability and engagement by the campus and community. Furthermore, institutions can support sustainability by investing in companies and funds that, in addition to providing a strong rate of return, are committed to social and environmental responsibility. Investing in these companies also supports the development of sustainable products and services. Finally, campuses can engage with the businesses in which they are invested in order to promote sustainable practices. (STARS Technical Manual, Investment section)

In this section, institutions answer questions about their investment holdings and practices, addressing issues such as transparency, specific investments, and corporate engagement. In order to answer these questions, it is important to have an understanding of and knowledge about the investment decisions and holdings of the institution. Each STARS section is required to have a responsible party. I suggest that you ask the Chief Investment Officer or other senior administrator in charge of investments and finance to complete the Investment section of STARS.

If you have a Committee on Investor Responsibility (CIR), ask the chair of the committee or a staff person affiliated with the committee to work on the section with the senior administrator. These people will have access to the information

necessary to answer the questions. Elevating completion of the STARS section to this level also indicates that the school takes investor responsibility and sustainable investment seriously. If institution personnel are struggling to complete the Investment section, I am always available to answer questions.

As a reminder, if the institution has a foundation that is dedicated specifically to supporting it rather than an endowment, the credits in STARS apply to that foundation as well.

Please feel free to share this guide with all parties involved.

Credit by Credit

PAE Credit 16: Committee on Socially Responsible Investment

In order to score the two points for this credit, schools must have an active committee on investor responsibility (CIR) or other committee that has multi-stakeholder membership that brings a variety of opinions to the trustees and the investment process.

In order to score the institution correctly on this credit, identify the committee that is involved in proxy voting and the investment process. If this committee has a name like CIR, the process may be simple. At some schools, it may be a subcommittee of the sustainability committee or other body.

You can score full credit on this if the committee:

- Has faculty, staff and student members (others are permitted)
- Reports to the board of trustees or has a process to do so
- Has the ability the ability to make recommendations across asset classes

In order to best facilitate data gathering and analysis, institutions are encouraged to include a description of the name of the committee and the work of the committee (what issues it addresses.)

Notes: I advise institutions to share the last time their committee met and any notable actions the committee has recently taken in the notes section.

PAE Credit 17: Shareholder Advocacy

This credit is based on the understanding that one of the most powerful tools an investor has to effect positive change on sustainability issues is engagement with the corporations that it owns in its portfolios.

This is the credit that has prompted the fewest questions. If the institution has either conducted a screening of the portfolio or engaged in dialogue within the last three years, the institution qualifies for this credit. If the school would like to take credit for **negative screening**, the institution must have sent a letter encouraging its managers to sell the affected holdings as well.

Notes: I encourage schools claiming this credit to include in the notes section a description of the process for continuing to engage in these activities.

PAE Credit 18: Positive Sustainability Investments

If you are looking at this guide right now, chances are that you had a question about this section.

Some questions that have been asked:

- We invest in mutual funds. How do we quantify the percent in sustainable investments?
- We don't want to disclose our investments. How can we answer this?
- We have sustainability investments but can't quantify the exact amount in "sustainable investments" in that fund. What should we do?
- We want to answer this, but don't know how to do it quantitatively! Can you help?

I will answer all of these questions. If you *want* to answer the questions in this section *you will be able to*. According to the Technical Manual "This credit recognizes institutions that *seek* positive investments that promote sustainability" (italics mine). Use this process to help you take credit for the institution's initiative!

1. Find any investments that have been made for positive sustainability reasons. Your senior administrator in charge of investments should have this information. If the administrator does not, a member of the investment committee or the institutional contact at a company that serves as the investment office will have this information. Ask that person to work with you to answer this question as their input will be necessary.

Ask, has the institution made any investments in companies or funds for sustainability or social reasons? Then ask for a list of those investments, a description of them, and why they were chosen. An institution can use this list to identify investments for inclusion in its STARS Report. You must use a "snapshot" of investments to calculate the total. I suggest choosing the end of the most recent fiscal year, or, if easier, the end of the most recent quarter.

What do we mean by positive sustainability investments?

2. Evaluate that list of investments. According to STARS the following forms of investment count as positive sustainability investments with my commentary on what might qualify below:

- Sustainable industries, such as renewable energy or sustainable forestry
 - Any investment directly in an entire industry sector would count. You could also potentially count holdings of companies whose entire business is sustainable (e.g. a manufacturer of wind turbines).
- Businesses *selected* for exemplary sustainability performances (*italics mine*)
 - Companies that are owned by the institution precisely *because* of their practices. Stock owned in companies that happen to have good practices do not count. (i.e. If you own stock in Intel, which has decent environmental practices, you should have chosen the stock in part because of its good environmental practices, not purely because it would be a good performer for other reasons.)
- Sustainability investment funds, such as renewable energy investment funds
 - Any fund with a mission of investing in a sustainable sector or industry or multiple sectors counts. An institution should also count any investment in a fund that is focused on purchasing bonds with sustainable goals, for instance, funds managed by Community Capital Management.
- Community development financial institution (CDFI)
 - Any investment in CDFIs, or in funds that invest primarily in CDFIs, count for this purpose. Examples of these kinds of funds are Calvert Foundation Community Investment Notes. CDFIs are certified by the Treasury Department. A list of CDFIs may be found on www.cdfifund.gov.
- Socially responsible mutual funds with positive screens
 - Positive screens are any qualifications for a fund that don't screen out an entire sector but instead invest in companies with "best practices" in sustainability in a field. If the fund manager says they "use environmental, social and governance (ESG) criteria when making investment decisions" this would count. It is left to the institution whether these criteria are strong enough for inclusion here. Most SRI mutual funds use these criteria. You can find the information on your manager's website.

Note that funds may overlap in some of the categories or may not overlap at all. When you are using the spreadsheet and the reporting tool you will notice that you have to fit each one of your investments into one of these categories. Choose the category that *most closely* represents your institution's investment. Count "separately managed accounts" or "pooled funds" that meet the criteria of "fund" in the same category as a fund or mutual fund.

3. Choose the funds/investments that you believe meet the criteria. Remember, individual companies should have been *chosen* for their sustainability investments, rather than counted even if they were chosen for other reasons. Funds should have criteria they use for making decisions. Institutions are not required to define what categorizes a “sustainable” company but instead must have a process for identifying sustainable investments, or their funds must, for any investments that are not “inherently” sustainable, like a CDFI.

4. Use the example at the end of this document and the accompanying spreadsheet to calculate your points. The example given in the STARS 1.1 Technical Manual is below. In it, the example is given of an institution with \$10 million in assets, with two “sustainable” investments. You will be expected to report your investments according to the categories listed in #3. If you fill out the spreadsheet “STARS Investment Reporting Assistance Tool” (found in the “My Resources” section of the Reporting Tool) it will provide you with the values that you are required to include in the STARS Reporting Tool.

5. Reporting. Reporting as much as you can will allow for AASHE and others to do research on the current state of investments at universities. Reporting asset classes of investments and even fund managers, if the institution allows it, can be helpful to understand how institutions of higher education are making investment decisions.

Tier Two Credits

This document does not address the Tier Two investment credits. Please feel free to call Dan Apfel with any questions about the credits.

Scoring Example: Positive Sustainability Investments

Example College's investment pool is valued at **\$10 million**.

Example College has **\$0.5 million** invested in a community development financial institution and **\$0.5 million** invested in a renewable energy fund.

| | | | | <i>Sum This Column</i> | | |
|--|----------|---|--------|-----------------------------|--|--------------|
| Sustainable industries, such as renewable energy or sustainable forestry | | | | <u>\$0.5 million</u> | | |
| Businesses selected for exemplary sustainability performances | | | | _____ | | |
| Sustainability investment funds, such as a renewable energy investment fund | | | | _____ | | |
| Community development financial institutions (CDFI) | | | | <u>\$0.5 million</u> | | |
| Socially responsible mutual funds with positive screens | | | | _____ | | |
| | | | | <u>\$1 million</u> | Total Positive Sustainability Investments | |
| | | | | | | |
| Factor | Multiply | Total Positive Sustainability Investments | Divide | Total Investment Pool | Equals | Total Points |
| 30 | × | <u>\$1 million</u> | ÷ | <u>\$10 million</u> | = | 3.0 |