UVM to Maintain Existing Endowment Investment Approach

December 18, 2013

Concluding nearly a year of meetings, open forums, discussions, presentations, and review, the Investment Subcommittee (ISC) of the UVM Board of Trustees met today and, after receiving input from each Subcommittee member, voted today not to take action on the issue of divesting from fossil fuels companies and not to forward the proposal of the Socially Responsible Investing Advisory Council (SRIAC) to the Budget, Finance, and Investment Committee (BFI) of the Board for further consideration.

The following is a summary of the Subcommittee’s work, perspectives, and rationale leading to final decision issued on December 18, 2013:

The Investment Subcommittee followed a deliberative process over several months since receiving the “Energy Investments at the University of Vermont” report submitted by the Socially Responsible Investing Advisory Council. This report is part of the process agreed upon by the Board, by which the Subcommittee would fully and separately consider any proposal from SRIAC with the responsibility to decide whether to bring this or other proposals submitted forward to the Trustee Budget, Finance, and Investment Committee, which the Subcommittee reports to.

The Trustee members of the Subcommittee discussed publicly the proposal and other materials presented, including multiple communications both oral and written from the Vermont Student Climate Culture group and various news and academic institution communications.

Subcommittee Chair Sam Bain stated that, “This has been an open, consultative, and serious process. Our Subcommittee has considered this matter carefully, thoughtfully, and thoroughly.” He noted that substantial time has been devoted to discussing this matter fully in the monthly meetings of the Subcommittee in an effort to take the time and gather the information necessary to perform proper due diligence. The Subcommittee heard from many individuals who expressed a variety of perspectives. Chair Bain said, “This committee wants to express its sincere appreciation to all who have participated so constructively in this process.”

The Subcommittee stated that its primary duty is to invest the endowment to maximize returns, minimize risk, and provide funds to support the academic mission of UVM. They noted their concerns that the purpose of the endowment and, therefore, its fiduciary responsibility does not include attempting to use the endowment as a tool in setting policy or exercising political influence. In its view, the most effective tool to influence corporate behavior is to use proxy voting. If the University were to divest it would lose its voice and the chance to influence further change.
The Subcommittee further emphasized its responsibility of: “Ensuring that current and future spending requirements are supported while also preserving the real purchasing power of the Fund” (from: UVM’s Statement of Investment Policies and Objectives, section III Responsibilities of Investment Subcommittee). This responsibility includes engaging in strategies that will maximize returns, minimize risk, and smooth volatility. The Subcommittee was unanimous in its view that the risks to diversification and investment returns from divestment cannot be assessed with sufficient accuracy and confidence, and that the downside risks have the potential to be significant.

During the process, the Subcommittee noted that nearly all of UVM’s endowment proceeds support student financial aid (45%), faculty professorships (12%), and academic programs and departments (42%) -- representing the very core of the University. If investment choices and ability to diversify are limited, and return on investment suffers, numerous educational opportunities are threatened for students, who receive financial aid support and scholarships, in addition to negative impacts on faculty support.

The endowment is comprised of private, not public, donations freely given by individuals with the expectation that they would be managed with the goal of: “Achieving an optimum level of return within specified risk tolerances.” (from: UVM’s Statement of Investment Policies and Objectives, section III Responsibilities of Investment Subcommittee). The Subcommittee discussed the importance of maintaining a steadfast commitment to fulfilling both the intent and the expectations of those who have given so generously in support of the University. The Subcommittee agreed that donors’ understanding at the time of past and current donor gifts was that the endowment would be invested in a well-diversified portfolio, with energy investments that include fossil fuel related corporations.

UVM is realizing very solid returns, most recently a 13% return in FY13, at times putting UVM in the top 10 percent of a large population of higher education institutions. The endowment stands at well over $400 million at this time - a record high. This increase will allow additional support to continuing improvement in educational quality at UVM. These returns have been developed by sound investment practices that at their forefront demand diversification to control risk and inclusion of multiple asset classes and of important economic sectors, including energy. The risk of excluding energy, which is 10% of equity sectors, is too high given the duty to create the best risk adjusted returns for the UVM endowment, the Subcommittee concluded.

The Subcommittee observed that the University is certainly not alone in this investment approach. Prestigious institutions with endowments much larger than UVM’s, including Harvard, Brown, Middlebury, recently have cited similar themes that have informed their decisions not to divest from fossil fuel companies.
Concerns about detrimental impacts to life on this planet related to climate change are very real, the Subcommittee stated, and commented that the University has taken many positive steps, including:

- Continuing important work on sustainability, in terms of curriculum, reuse/recycling, and energy efficiency, focused on what we can do as a community to reduce dependence on fossil fuels. Two of many examples are: 1) UVM’s LEED Certification requirement for any new buildings on the campus, and 2) UVM’s participation in STARS: **Sustainability Tracking, Assessment & Rating System** - a transparent, self-reporting framework for colleges and universities to measure their sustainability performance.

- Nurturing a strong and expanding reputation as an environmentally focused institution, conducting cutting edge research in many relevant areas. UVM’s commitment is further demonstrated by the fact that we have a major academic unit whose very existence is based on the study of the environment: the Rubenstein School of Environment and Natural Resources.

- Implementing plans to strengthen UVM’s commitment to donor service by establishing an alternative endowment fund for future donations from those who wish to have their gifts invested in non-fossil fuel sources. This fund will be available in the near future.

In sum, much of what was recommended in the SRIAC report has been accomplished, the Subcommittee commented. Actions include: proxy voting publishing, Board of Trustee sustainable initiatives, heightened awareness among Subcommittee and the Board as to carbon risks, and more research and education initiatives.

Summarizing the process, the Investment Subcommittee Chair stated that, “Contributors to this process have provided valuable service to the University by increasing our awareness around climate issues. We recognize that some will be disappointed with this decision. It was arrived at after numerous public opportunities for dialogue, input, and learning, and we have every confidence that interactions around this topic will continue to be respectful of differing perspectives. In the end, all of us have the same objective: The continued success of our University and all who are a part of it, and with regard to this issue, the continued growth of our returns in the endowment that directly support the core of the University: students and faculty. “

The outcome of the Investment Subcommittee’s work has been reported to the Chair of the UVM Board of Trustees and to the Chair of the Budget, Finance and Investment Committee of the Board.