University of Tennessee Responsible Investment Factbook

UT Coalition for Responsible Investment

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Document Overview

The purpose of this factbook is to clarify the purpose and details of the recent SGA referendum and resolution on responsible investing. Given the utmost importance of the health of UT's endowment, the technical nature of the legislation, and the novelty of this movement, the Coalition feels it is prudent to provide some additional material to supplement the occasionally abstruse language of SGA legislation. This document is **not** meant to be comprehensive, but will hopefully serve as an effective and useful overview of the topic. Any questions or requests for additional information will be happily met.

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I. Introduction

The University of Tennessee is a state-wide system composed of three main campuses – Knoxville, Chattanooga, Martin – and various institutes and centers spread across the state of Tennessee. Nearly 50,000 students are enrolled in the University of Tennessee system [1].

Supplementing the tuition, student fees, and tax dollars allocated for it, the UT system also finances a number of scholarships, fellowships, and other programs through the annual returns from our endowment. This endowment consists of both restricted and unrestricted funds. The life income fund, for example, has donor stipulations attached to it. However, the majority of our portfolio is unrestricted and UT has full control over these funds. Unrestricted funds are mostly included in our consolidated investment pool (CIP) and our separately invested funds. As of 2012, these funds topped over $600 million in market value [2].

The investment team at UT has done an excellent job of managing and growing our portfolio over the years, including during the difficult economic climate following the 2000's financial crisis. The Coalition for Responsible Investment seeks to add to the great work that has already been done.

II. Resolution/Referendum Summary

<u>What is the resolution/referendum calling for exactly?</u>

There are three clauses in the resolution/referendum that request adjustments to UT's practices. Two of them call for essentially the same thing: 1) Sell our equity holdings in one company from one of the Top 200 Fossil Fuel Company List by 2014, and 2) commit to no further purchases of these companies, while devising a plan to sell the remaining equity holdings by 2018.

For purposes of explanation, these two clauses may be considered the same policy – divestment from fossil fuel companies.

The other clause calls for the creation of a Subcommittee on Responsible Investment that would review UT's investments on the basis of social and environmental responsibility.

III. The Subcommittee on Responsible Investment

Currently, the UT Board of Trustees relies upon the Finance and Administration Committee, or FAC, to recommend investment policies to the full Board, as well as performing quarterly reviews of investment performance. Next, the Treasurer is advised by the Investment Advisory Committee, or IAC, on its overall investment strategy. [3]. A subcommittee on responsible investment would advise the FAC and IAC on the social and environmental aspects of investments. It would exist entirely to help align the endowment with the mission and values of the UT system.

As of this writing, 40 universities and colleges have adopted a subcommittee on responsible investment. The number of these committees has doubled over the past decade. These schools include several Top 25 public universities, in addition to many top private institutions, such as Columbia University and the University of Pennsylvania. In addition to fellow top universities, dozens of cities, churches, and other institutions have taken steps to either implement such a subcommittee or have taken actions that align with responsible investment, including divestment [4] [5].

This means that UT has several subcommittee ideas to draw from to ensure that we design one that is best for us. We can study how these dozens of institutions have fared after implementing such policies.

The one function that would remain the same regardless of structural variation is that this subcommittee will work with the IAC to root out investments that do not align with our stated values and find suitable replacements that will ensure our returns do not diminish. This will serve to strengthen our portfolio and also to engage students on the investments that sustain their university.

IV. Divestment from Fossil Fuels

The second prong of our approach is to simultaneously work on divestment from fossil fuel companies while implementing this subcommittee.

The choice of fossil fuels is a simple one: UT has stated commitments to sustainability and civility. The University of Tennessee campus in Knoxville has also stated a commitment to becoming 100% carbon neutral by the year 2061. The recognition that carbon emissions are an undesirable and unsustainable practice is exemplified by these commitments.

The University of Tennessee Climate Action Plan states:

"The University of Tennessee aspires to serve as a model of environmental stewardship and integrity…the faculty, staff, administration, and students will strive to increase awareness of environmental problems and will promote sound environmental practices.

UTK will encourage consideration of environmental impacts in ***all*** *decisions made by university* ***faculty, staff and students****."* [6]

Emphasis was added. This document makes clear that the University of Tennessee seeks to weigh environmental concerns in all decisions made by the faculty, staff, and students associated with the university. This would mean that the University of Tennessee at Knoxville should, according to its own environmental policy, support the consideration of any environmental impacts that come with investment at the system-level.

In this same document, Chancellor Jimmy Cheek states:

"Maintaining and enhancing UT Knoxville's place as a national leader in campus sustainability is one of the strategic goals for our campus…

UT Knoxville is a signatory to the American College and University Presidents' Climate Commitment. This commitment lays the groundwork for our nation's higher education community to take a leadership role in ***mitigating human influence on climate in our day-to-day operations, curriculum, and research****. One step in the commitment is to implement a plan by which the campus will become climate neutral."* [6]

Emphasis was again added. The university's dedication to carbon neutrality reflects its acknowledgement of the harm and unsustainability of carbon emissions. The university's commitment to protecting the environment from carbon emissions makes its ownership of fossil fuel companies contradictory, by nature, with its stated values and goals.

In addition, the UT Budget Office has an official policy on socially responsible investment, stating:

"The primary goal of the Consolidated Investment Pool is to generate a sustainable stream of distributions to support the University's programs. Mindful of this objective, the Investment Committee may consider the extent to which an investment is consistent with the goals of the University of Tennessee. Where appropriate, the University may seek to influence or avoid those investments that conflict with those goals. Action will only be taken, however, if the Investment Committee believes it would not cause harm to the investment objectives of the Pool, impair performance, or place a material burden on current resources." [7]

We maintain that no harm, impairment, or burden would be suffered by divesting from fossil fuels on the five-year timeline we have established.

Owning fossil fuel companies is wholly at odds with the mission, values, and investment philosophy of our institution. It sends a mixed message for UT to work to reduce its fossil fuel consumption and simultaneously own companies that produce this fuel, often in ways devastating to the local and global environment.

V. Is Divestment Financially Sound?

Divesting from fossil fuel companies would send a strong message about UT's commitment to its values and also recognize growing trends that will make fossil fuel companies increasingly less profitable in the future.

The investment philosophy of both the IAC and the investment group that advises UT stresses the importance of long-term gains, stating:

"The University's investment philosophy begins with the conviction that investing in securities with attractive long-term return potential outweighs short-term volatility risk." [8]

and

"…investment decisions are made with a long-term perspective and value orientation." [8]

Several top financial institutions, including Standard & Poor's, HSBC PLC, and the London School of Economics, have cast doubt on the ability of the fossil fuel industry to maintain current levels of profitability and value over the long-term. Given the finite nature of petroleum reserves, skyrocketing demand for these reserves, and increasing shifts towards more sustainable sources of energy, some financial experts and economists believe that carbon reserves are overvalued and may be in risk of developing or may already be in the midst of a bubble [9][10][11][12].

The Coalition finds this to be compelling evidence that the University of Tennessee will not only avoid suffering harm by divesting from these companies, but will in fact be insulating itself from a potential asset bubble that would counter our investment philosophy's emphasis on long-term gains and value purchases.

More broadly, sustainable investment is rapidly entering the mainstream financial world. The Principles for Responsible Investment was established by the United Nations in collaboration with several asset managers, academics, and other financial experts. As of June 2012, there have been more than 1000 signatories to the PRI. This represents over $30 trillion in assets managed by signatories [13].

Due to the increasing number of sustainably invested assets, there are a number of sustainably invested indices that we can examine for evidence of a financial impact from sustainable investment. One empirical study published in the Southern Journal of Business and Ethics concludes:

"Our empirical results generally support the theory that sustainable firms listed on the DJSI-US have shown less volatility and have an attractive risk-return profile. Data suggest that the DJSI-US stocks provide stable long-term returns comparable to the market over time, and tend to out-perform the market during times of financial downturn." [14]

Given UT's investment philosophy of emphasizing long-term gains and value over short-term volatility, shifting holdings from unsustainable companies to sustainable indices should yield comparable or improved returns. *This is even in the case that fossil fuel companies maintain their current value for the long-term,* a proposition that, as previously stated, an increasing number of financial experts do not find likely.

VI. Conclusion

The Coalition for Responsible Investment believes that the University of Tennessee finds itself in a unique position. We are in the middle of a global shift to new, cleaner sources of energy, a shift in which the University of Tennessee system has been a leader. UT now has the opportunity to build upon its previous work.

By seizing this opportunity, UT will enhance our standing as a leader among public research institutions, improve our already impeccable finances, align our ownership of companies with our values, and make UT campuses more attractive options for prospective top students and faculty. It would be one more definitive step towards pushing all of our campuses closer to Top 25 status.

VII. References

Author note: Please pardon the citation format – or lack thereof. If you would like additional reading materials, if any of these URLs are not working, or you have questions or comments, feel free to contact me at dlawhon@utk.edu.

[1] http://www.tennessee.edu/aboutut/index.html
[2] http://treasurer.tennessee.edu/investment/ivestfaq.html
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