

## 2018 Summary of Survey Findings on Sustainable Investing Practices Among Higher Education Institutions

Over the last decade a few organizations have made efforts to capture the practice of responsible investing among educational endowments. What follows is a summary of the findings of the most recent surveys. In this summary the term “responsible investing” is used as an umbrella term to include: (1) incorporating ESG criteria into the investment process; (2) exclusions and screening (3) impact investing or making investments directly aligned with institutional mission.

### Overview of Surveys

Over the past few years the NACUBO-Commonfund Study of Endowments has broadened its research from a few questions about socially responsible investing mostly focused on the exclusion of certain stocks to a more in-depth survey that asks participants about the practice of incorporating ESG criteria in investing, the use of exclusions or negative screens, and the prevalence of investing for a specific impact. In the 2017 study, over 800 college and university participants also responded to inquiries about the percentage allocated by colleges and universities to such investments, engagement with third party stakeholders on responsible investing and practices of voting proxies

Callan has also been studying the field of ESG investing for the last 5 years. In 2017, Callan surveyed just over 100 participants including pension plans, defined contribution plans, foundations and endowments. Their focus has been primarily on large institutions with over \$500mm in assets. Over half of the respondents to the Callan survey had assets over \$500 mm compared to about 22% of the NACUBO-Commonfund respondents. 18% of reporting institutions were identified as endowments without defining whether those endowments were higher educational endowments. This summary includes the information on the endowment respondents in that survey (a relatively small group of approximately 20 endowments).

USSIF surveys a broader universe of both asset owners and asset managers. It also separates out findings specific to trends at educational institutions in terms of dollars invested that were uncovered as a part of its broader review.

### Survey Findings

#### *NACUBO-Commonfund*

1. In its 2017 study, NACUBO reported that 16% of its 809 respondents “included in their portfolios investments that rank high on ESG criteria”. The range across size cohorts was fairly tight: 12-19%. 23% of respondents reported excluding or screening investments that were inconsistent with their mission (range across size cohorts was 20-28%) and 13% reported allocating a portion of their endowments to investments that furthered their institution’s mission.

2. A little over a third of the 809 participants provided information about the percentage of assets that were allocated to such investments. Of those reporting, by far the largest allocations were made to investments that screen at an average of 42% of the portfolio. This average percent allocated to screened investments varied greatly among size cohorts from 26% to 62%. The respondents reported that an average of 17% of their portfolios were allocated to an ESG strategy and 20% of their portfolios were allocated to impact investments or MRI. The ranges were similarly wide across size cohorts: 3-24% for ESG and 2-24% for impact investments.

3. Generally all three strategies see greater uptake among private institutions than public by approximately a 5% margin.

4. While less than 10% of reporting institutions said their board had made a decision to prohibit such investing, the practice has clearly not been fully embraced by higher education endowments. Anecdotally reasons cited fell into a few categories:

- Concerns about performance
- Frictional costs/higher management fees
- Use of pooled funds limited their options
- Modern Portfolio Theory driven - the belief that limitations on the opportunity set will reduce return.

5. Over the past three years the NACUBO study found that meetings with third party stakeholders on campuses has generally increased, with nearly one third of respondents reporting that they had had such meetings. Fossil fuel divestment remains a leading topic in meetings with students, with 71% of the 255 reporting institutions saying they had met with students on this issue. Forty-six percent of the respondents cited ESG as the topic of their meeting, and 41% cited other exclusions as the topic.

### *Callan*

1. Callan's survey was specific to ESG investment and had 105 participants. Callan's survey included pension plans, defined contribution plans, foundations and endowments. Their focus has been primarily on large institutions with over \$500mm in assets. 18% of the respondents were classified as "endowments". The endowments may or may not be educational endowments.

2. In 2017, 39% of the respondents reported "incorporating ESG factors into investment decision making". The definition was fairly broad and included endowments who had language in their IPS around ESG investing though they may not actually be implementing yet.

### *US SIF*

1. The 2018 USSIF survey reported that educational institutions had \$317B in assets invested according to some sort of ESG criteria.

2. The vast majority of that (>\$287mm) was described as being divested from Sudan (or other countries of conflict risk) and tobacco (endowment assets could have overlapping strategies).

3. Climate change and carbon emissions were reported to be considered across \$143B, a more than twofold increase from the 2016 USSIF report. \$83B in assets were reported to be divested from fossil fuels, a more than threefold increase since the 2016 report, and \$7B was reported to be subject to clean technology criteria a 2.6x increase from the 2016 report.

Sources:

*USSIF 2016 Trends Report: Highlights for Educational Endowments*

*2017 NACUBO Commonfund Study of Endowments*

*Callan 2017 ESG Survey*