

CASE STUDY

# Arizona State University

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OCTOBER 2018

A photograph of the Arizona State University building, featuring a central tower with a statue. The building is surrounded by trees and a low wall in the foreground. The wall has the words "ARIZONA STATE UNIVERSITY" engraved on it.

ARIZONA STATE UNIVERSITY

**Intentional  
Endowments  
Network**

*An initiative of  
CraneSustainability.org*

## Executive Summary

Arizona State University (ASU), located in the greater Phoenix metropolitan area, pursues sustainability into both internal and external initiatives.

In recent years, ASU has been awarded multiple accolades for its leadership in sustainability, including the 2016 Climate Leadership Award, the Arizona Forward Environmental Excellence Award, and the APPA Sustainability Award.<sup>1</sup> ASU Enterprise Partners serves as the private side of the public university. Investment assets in ASU's endowment are managed by the Foundation and are overseen by ASU Enterprise Partners.

ASU's interest in sustainable investing was generated internally by ASU Foundation leadership. Their decision to move toward sustainable investing was informed by the ability of sustainable investing strategies to provide another layer of investment analysis, allowing the Foundation to fulfill its fiduciary duty. Additionally, sustainable investing considerations align with the university's values and sustainability leadership. The Association for Advancement of Sustainability in Higher Education's Sustainability Tracking Assessment and Rating system (STARS) was another key driver for sustainable investing consideration.

In May of 2015, the ASU Foundation released a statement titled '*Socially Responsible Investing and the ASU Foundation*,' addressing The Foundation's perspective on sustainable investing. This informed the creation of the Foundation's Environmental, Social and Governance (ESG) investment pool in the Fall of 2015, as well as their founding membership in The Intentional Endowments Network, the launch of their ESG subcommittee in 2016, and their relationships with external managers and consultants.

During the summer of 2017, the ASU Foundation named BlackRock, Inc. as its Outsourced Chief Investment Officer. ASU is in the beginning stages of working with BlackRock to integrate ESG metrics across all investments. Currently, ASU and BlackRock are working to analyze their public equity portfolio against ESG data. In the future, ASU hopes to use ESG metrics for more targeted impact in their private equity, fixed income, and hedge fund portfolios, and in opportunities coming from the campus itself. As ASU continues to develop their approach to sustainable investing, these precedents will help pave the way for other colleges and universities.

“In recent years, ASU has been awarded multiple accolades for its leadership in sustainability...”

## Introduction

Arizona State University (ASU), located in the greater Phoenix metropolitan area, is a leader in innovation and sustainability. In 2017, ASU's enrollment figures surpassed 100,000 students, 40% greater than five years ago. Over the past 10 years, ASU has dramatically restructured its university

and reached new milestones. Championing sustainability, interdisciplinary collaboration, and community engagement, ASU continues to reinvent and develop the standards of excellence for itself and universities around the world.

## Arizona State University's History of Sustainability

ASU has fused the theme of sustainability into its core DNA, rigorously pursuing both internal and external initiatives. For the past four years, ASU has been selected as the nation's most innovative school by *U.S. News & World Report*.<sup>2</sup> ASU's most prominent internal operations programs focus upon energy conservation, transitioning to renewable energy sources, achieving zero waste, improving building efficiency, and water conservation.<sup>3</sup> One example of this is ASU's Sustainability Initiatives Revolving Fund (SIRF). Established in 2012, the SIRF finances small-scale to large-scale sustainability projects. Proposals can be submitted to the ASU SIRF committee and are assessed for their ability to meet a high economic return on investment. Notably, a SIRF project that seeks to improve thermal pipe insulation has been estimated to save ASU more than \$81,000 per year.<sup>4</sup> ASU's SIRF is a participant in the Sustainable Endowment Institute's Billion Dollar Green Challenge, a collaboration that coordinates governmental and nonprofit institutions to achieve energy savings and regenerate funds for future projects.<sup>5</sup>

In recent years, ASU has been awarded multiple accolades for its leadership in sustainability, including the 2016 Climate Leadership Award, the Arizona Forward Environmental Excellence Award, and the APPA Sustainability Award.<sup>6</sup> ASU continues to set ambitious goals and aggressively pursue new initiatives – including a commitment to climate neutrality by 2025.<sup>7</sup>

Fulfilling a commitment in its charter to be “measured by whom it includes and how they succeed,” ASU has expanded student outreach to underserved communities; in turn growing the University's demographic profile as well as socioeconomic diversity. In addition, systemic

improvements to accessibility have been incorporated throughout ASU's infrastructure, resulting in higher student retention rates. These feats were recognized by ASU's winning of the first ACE/Fidelity Investments Award for Institutional Transformation in 2014.

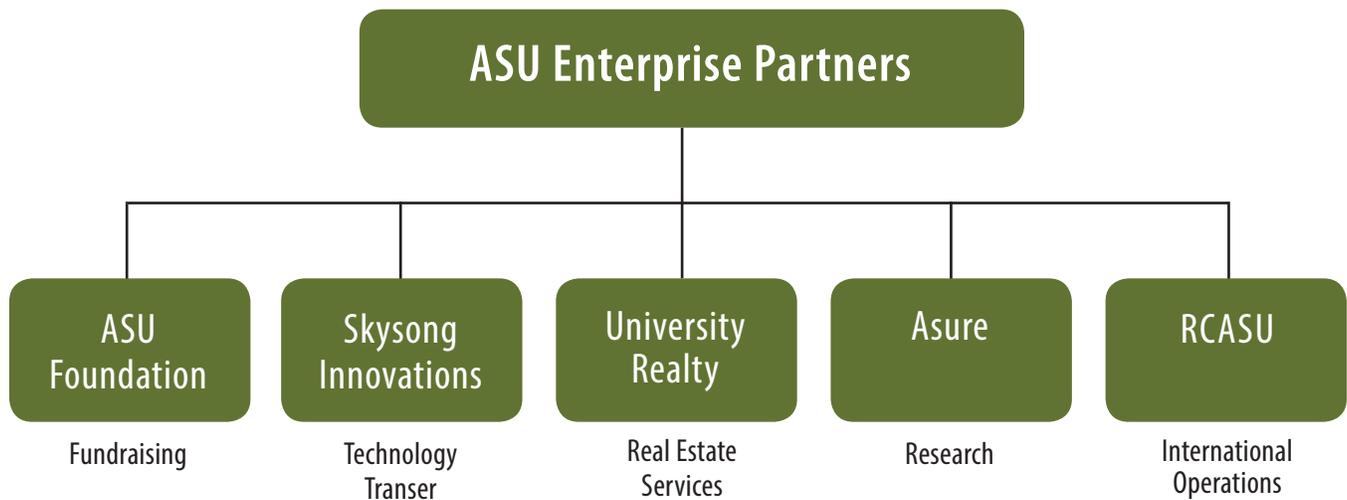
ASU seeks to not only lead institutional change, but also to empower future leaders to be advocates for sustainability. In 2006, ASU established the first school of sustainability in the United States: The Julie Ann Wrigley Global Institute of Sustainability. The ASU Wrigley Institute is a locus of research, education, and business development, and offers undergraduate, graduate, doctoral, and professional leadership programs. Championing a systems approach to sustainability, the Institute creates synergies between multiple disciplines, allowing an interdisciplinary network of students and faculty to engineer and implement effective solutions to sustainability challenges.

Additionally, ASU is beginning to integrate sustainable investing principles into their academic programs. In the fall of 2018, ASU will begin a student-run ESG investment strategy course out of the School of Sustainability with students from multiple disciplines, including those from the W.P. Carey School of Business. It will be one of five courses across the university that give undergraduate and graduate students hands-on experience in managing real investment portfolios. The ESG focused class will enroll about 10-15 undergraduate and graduate students.

## Restructuring and the New American University

Since 2002, President Michael J. Crow has instituted a massive transformation of university infrastructure, working toward what is now called the New American University model. A perfect partner of the New American University is ASU Enterprise Partners, which serves as the private side of the public university. Enterprise Partners operates much like a holding company, in which five individual subsidiaries operate under one umbrella organization, allowing each subsidiary to focus on independent functions while working toward university advancement. Each subsidiary's status as a separate entity with disparate governance systems allows for more cleanly structured functions, allowing for greater autonomy, sharper collaboration, and greater efficiency. Investment assets in ASU's endowment are managed by the Foundation and are overseen by ASU Enterprise Partners. ASU Enterprise Partners governance structure is laid out below, in Figure One.

**Figure One: ASU Enterprise Partners Governance Structure**



Interconnected leadership roles within ASU have catalyzed the development of sustainability initiatives and collaborations. Rick Shangraw, the current CEO of ASU Enterprise Partners and previous CEO of the ASU Foundation, is a director of the Julie Ann Wrigley Global Institute for Sustainability. His thought leadership within the realm of sustainability significantly influenced ASU Foundation's approach to sustainable investing.

Morgan Olsen is the executive vice president, treasurer and chief financial officer at ASU. Olsen is greatly involved with developing ASU's investment strategies, serving on the ASU Enterprise Partners Investment Committee as well as the ESG subcommittee. He is also the point of contact for the SIRF fund and helps lead other sustainability efforts.

Jeff Mindlin, the vice president of investments at ASU Enterprise Partners, also teaches at the School of Sustainability. During the Fall 2018 semester, he will instruct the department's first ESG investing course. These examples of interlinked positions, resulting in direct action, exemplify the possibilities of ASU's New American University structure.

# Path to Sustainable Investing

## Development of a Sustainable Investing Policy & ESG Donor Option

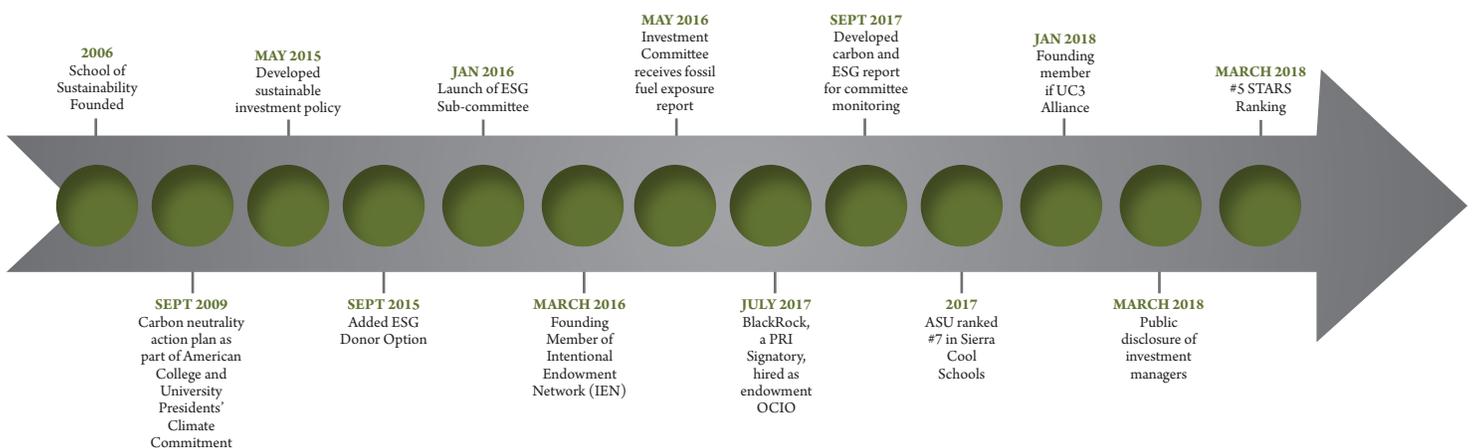
Uniquely, ASU’s interest in sustainable investing was generated internally by ASU Foundation leadership. Their decision to move toward sustainable investing was informed by the ability of sustainable investing strategies to provide another layer of investment analysis, allowing the Foundation to fulfill its fiduciary duty. This is in contrast to many schools that begin to focus on sustainable investing due to student activism. In addition, sustainable investing considerations align with the university’s values and sustainability leadership.

The Association for Advancement of Sustainability in Higher Education’s Sustainability Tracking Assessment and Rating system (STARS) was another key driver for sustainable investing consideration. STARS is a self-reporting framework that enables colleges and universities to measure their sustainability performance. One section covers investment and finance, and institutions can submit information regarding investment disclosure, committees on investor responsibility, and sustainable investments. STARS facilitates transparency and knowledge exchange by using common metrics, providing a framework for universities that want to explore sustainability, and creating a space where higher education institutions can have access to meaningful comparisons and track progress across time.

In May of 2015, the ASU Foundation released a statement titled ‘*Socially Responsible Investing and the ASU Foundation*,’ addressing The Foundation’s perspective on sustainable investing. According to the statement, “Climate change and broader sustainability concerns represent significant risks and opportunities to investment portfolios.”

Sustainable investing can take many forms including adopting negative screens to ensure certain sectors are avoided (i.e. tobacco, firearms, fossil fuels), impact investing, and incorporating environmental, social, and governance (ESG) factors into investment analysis. As fiduciaries seeking to minimize risk while maximizing returns, the incorporation of ESG factors allows for more comprehensive long-term risk analysis. This informed the creation of the Foundation’s ESG investment pool in the Fall of 2015, as well as their founding membership in The Intentional Endowments Network, the launch of their ESG subcommittee in 2016, and their relationships with external managers and consultants. A timeline of ASU’s long-standing commitment to sustainability and sustainable investing is laid out below, in Figure Two.

**Figure Two: A Timeline of Arizona State University’s Commitment to Sustainability**



## **Relationships with External Consultants and Managers**

Throughout their partnerships with Cambridge Associates, Perella Weinberg Partners, and finally BlackRock, ASU assessed the potential for incorporating sustainable investing into their overall investment approach. At each iterative stage, ASU constructed a task force to evaluate the importance of sustainable investing and conduct committee level discussion. The ESG subcommittee, formed in 2016, now serves as a permanent team that continually evaluates the ESG landscape.

During the summer of 2017, the ASU Foundation named BlackRock, Inc. as its Outsourced Chief Investment Officer. BlackRock had previously provided ASU with risk advisory services. The expansion of BlackRock's role into OCIO was driven by closely aligned values including global perspective and a focus on innovation as well as investment skills ranging from index management to customized alternatives. A shared culture on sustainability was viewed as opening further opportunities for partnership and collaboration as well as bringing tools for further insight into the portfolio.

**“Climate change and broader sustainability concerns represent significant risks and opportunities to investment portfolios.”**

— ASU FOUNDATION

## Implementation

The ASU Foundation, a private nonprofit that implements fundraising efforts and focuses on philanthropy, is one of the five organizations that make up ASU Enterprise Partners.

The Investment Committee is composed of experts from the financial community, university and Enterprise Partners leadership, and representation from the Alumni Association. They manage the investment policies and strategies, monitor performance, and select investment consultants. The committee is supported by internal staff from the Investment and Treasury departments. Within the Investment Committee, the ESG subcommittee is a special taskforce that researches and develops the thought work for the ESG protocol.

### **Public Equities Management–ASU BlackRock Partnership**

ASU is in the beginning stages of integrating ESG metrics across all investments. Currently, ASU and BlackRock are working to analyze their public equity portfolio against ESG data. Usage of BlackRock’s Aladdin Analytics system, a risk and trading operations platform, is essential. This platform includes diagnostics regarding risk exposures, carbon footprint, and ESG metrics. Having these tools provides a better understanding of the public equity portfolio’s exposures and a foundation for developing an ESG strategy.

Once this ESG data is available, it will inform manager selection, investment decisions, and reporting analysis. After these measurements are developed, ASU can set their benchmark goals and strategize how to move forward. These ESG metrics are currently only used within ASU’s public equity portfolio. Eventually, ASU would like to utilize this strategy in their private equity, fixed income, and hedge fund portfolios; however, lower transparency in those asset classes makes data less accessible. Because of this, ASU and BlackRock take a more qualitative approach in those asset classes currently, assessing managers’ strategies and approaches and incorporating that data into the decision-making process.

### **ESG Subcommittee & ESG Donor Pool**

The ESG subcommittee is a specialized task force dedicated to leading the ASU Foundation’s thought-work on ESG. The purpose of the ESG sub-committee is to “study ESG, provide fiduciary oversight of the ESG donor option and keep up to date on new information, topics, and products available in the marketplace.” The ESG sub-committee

includes the investment committee chair, investment committee vice-chair/ASU staff member, an investment advisory member/alumnus, an ASU faculty member, an ASU student, and internal staff. Incorporating staff, faculty, and student representation facilitates stronger collaboration and helps achieve consensus as well as campus engagement.

The creation of a specific task force also streamlines the investment committee decision-making processes. With a dedicated subcommittee and allotted meeting times, the ESG committee is able to research and synthesize topics before presenting to the board. The ESG committee can spend dedicated time drilling down, reporting metrics, and understanding how things are calculated. This information and any related proposals are then presented to the investment committee, which makes motions and ratifies decisions.

The ESG committee additionally takes the lead in evaluating options for the ESG donor pool. This fund seeks to provide more flexibility in implementation given a range of donor interests. It is expected that the partnership with BlackRock will allow for more sophisticated investment options in the future.

## Next Steps

ASU is at the beginning stages on the spectrum of sustainable investing. There was little resistance from the investment committee when assessing the potential to incorporate ESG integration; however, the main consideration was the operational impact. By keeping options set to a finite approved and vetted set, ASU was able to keep the additional work scalable. While assessing the potential to incorporate ESG factors into the investment process, the investment committee had to balance the committee's tolerance for increases to the program expense ratio as well as tracking error. In addition, they had to determine the amount of passive allocation that they were comfortable with.

Currently, ASU's SRI policy and Investment Policy Statement are separate. One future task is to assess the possible relationship between the two or how ESG factors could be integrated into the IPS. ASU is currently using ESG analysis on their public equities, however, there remains the potential to examine implementation in other asset classes. ASU has yet to venture meaningfully into impact investing, although they currently hold real assets in renewable energy including solar, hydro, and wind power.

In the future, ASU hopes to use ESG metrics for more targeted impact – investing both externally and in opportunities coming from the campus itself. The university's robust sustainable ecosystem provides ample investment opportunities.

Going forward, ASU will evaluate how to improve and balance both their regular and ESG donor pools. In addition, ASU is considering how best to market the ESG pool, and working to understand how, if the ESG pool is used as an attraction point, it would impact perception of the regular pool. As ASU develops solutions to these challenges, these precedents will help pave the way for other universities to undertake sustainable investing.

**“Going forward, ASU will evaluate how to improve and balance both their regular and ESG donor pools.”**

## Footnotes

<sup>1</sup>Arizona State University. "Honors and Awards." Business and Finance. June 24, 2018. Accessed July 10, 2018. <https://cfo.asu.edu/sustainability-awards>

<sup>2</sup>Faller, Mary Beth, and Amanda Stoneman. "ASU Selected as Nation's Most Innovative School for Third Straight Year." ASU Now: Access, Excellence, Impact. December 29, 2017. Accessed July 10, 2018. <https://asunow.asu.edu/20180909-asu-news-ranked-most-innovative-US-school-fourth-time>

<sup>3</sup>Arizona State University. "What ASU is Doing." Julie Ann Wrigley Global Institute of Sustainability. Accessed July 10, 2018. <https://sustainability.asu.edu/campus/what-asu-is-doing/>

<sup>4</sup>Craft, Wendy. "SIRF shores up financing for sustainability initiatives." ASU NOW. March 15, 2012. Accessed July 10, 2018. <https://asunow.asu.edu/content/sirf-shores-financing-sustainability-initiatives>

<sup>5</sup>Sustainable Endowments Institute. "Arizona State University." Billion Dollar Green Challenge. Accessed July 25, 2018. <http://greenbillion.org/participant/arizona-state-university/>

<sup>6</sup>Arizona State University. "Honors and Awards." Business and Finance. June 24, 2018. Accessed July 10, 2018. <https://cfo.asu.edu/sustainability-awards>

<sup>7</sup>Arizona State University. "Carbon Neutrality Action Plan." Global Institute of Sustainability at Arizona State University. September 15, 2009. Accessed July 10, 2018. <https://drive.google.com/file/d/0BzzwFVA9-pd0MW9CZU9xeGZUeG8/view>

<sup>8</sup>Riskind, Jon. "Arizona State University Receives ACE/Fidelity Investments Award for Institutional Transformation." American Council on Education. March 9, 2014. Accessed July 10, 2018. <http://www.acenet.edu/news-room/Pages/Arizona-State-University-Receives-ACEFidelity-Investments-Award-for-Institutional-Transformation.aspx>

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