PA 10: Sustainable Investment

3-5 points available

Rationale

This credit recognizes institutions that use their investment power to promote sustainability. There are a variety of approaches an institution can take toward sustainable investment, including making positive investments that promote sustainability and engaging with companies in which they already hold investments. Positive investing supports socially and environmentally responsible practices and the development of sustainable products and services. Active investor engagement can help align an institution's investments with its values, protect the institution from the financial consequences of fines, lawsuits, customer boycotts and damages to a company's reputation that may result from unsustainable corporate behavior, and improve the sustainability performance of the businesses it invests in. Both types of activities contribute toward a more just and sustainable financial system.

Applicability

This credit applies to institutions with *endowments* of $1 million (US/Canadian) or larger. Institutions with endowments totaling less than $1 million may choose to mark this credit as Not Applicable.

Criteria

Part 1. Positive sustainability investment

Institution invests in one or more of the following:

- Sustainable industries (e.g., renewable energy or sustainable forestry). This may include any investment directly in an entire industry sector as well as holdings of companies whose entire business is sustainable (e.g., a manufacturer of wind turbines).

- Businesses selected for exemplary sustainability performance (e.g., using criteria specified in a sustainable investment policy). This includes investments made, at least in part, because of a company's social or environmental performance. Existing stock in a company that happens to have socially or environmentally responsible practices should not be included unless the investment decision was based, at least in part, on the company's sustainability performance.

- Sustainability investment funds (e.g., a renewable energy or impact investment fund). This may include any fund with a mission of investing in a sustainable sector or industry (or multiple sectors), as well as any fund that is focused on purchasing bonds with sustainable goals.

- *Community development financial institutions* (CDFIs) or the equivalent (including funds that invest primarily in CDFIs or the equivalent).

- Socially responsible mutual funds with positive screens (or the equivalent). Investment in a socially responsible fund with only negative screens (i.e., one that excludes egregious offenders or certain industries, such as tobacco or weapons manufacturing) does not count in Part 1.

- Green revolving loan funds that are funded from the endowment.

Part 2. Investor engagement

Institution has policies and/or practices that meet one or more of the following criteria:

- Has a publicly available sustainable investment policy (e.g., to consider the social and/or environmental impacts of investment decisions in addition to financial considerations).
- Uses its sustainable investment policy to select and guide investment managers.
- Has engaged in *proxy voting* to promote sustainability during the previous three years, either by its committee on investor responsibility (CIR), by another committee, or through the use of guidelines.
- Has filed or co-filed one or more *shareholder resolutions* that address sustainability or submitted one or more letters about social or environmental responsibility to a company in which it holds investments, during the previous three years.
- Participates in a public divestment effort (e.g., targeting fossil fuel production or human rights violations) and/or has a publicly available investment policy with *negative screens*, for example to prohibit investment in an industry (e.g., tobacco or weapons manufacturing).
- Engages in policy advocacy by participating in investor networks (e.g., Principles for Responsible Investment, Investor Network on Climate Risk, Interfaith Center on Corporate Responsibility) and/or engages in inter-organizational collaborations to share best practices.

Scoring

This credit is weighted more heavily for institutions with large investment pools and less heavily for institutions with smaller investment pools. The number of points available is automatically calculated in the online Reporting Tool as detailed in the following table:

Total value of the investment pool (US/Canadian dollars)	**Total points available for the credit**
$1 billion or more	5
$500 - 999 million	4
Less than $500 million	3

An institution earns the maximum points available for this credit by investing 60 percent or more of its investment pool in one or more of ways listed in Part 1 OR by investing at least 30 percent of its investment pool sustainably and meeting all of the investor engagement criteria listed in Part 2. Incremental points are available for Part 1 and partial points are available for Part 2. Each part is scored as follows:

Part 1

An institution earns the maximum points available for Part 1 by investing 60 percent or more of its investment pool in one or more of the ways listed above. Incremental points are awarded based on the percentage of the institution's investment pool that is invested sustainably, as follows:

$$\text{Points earned in Part 1} = (1.67 \times A) \times (B / C)$$

A = Total points available for this credit (see above)
B = Value of positive sustainability investments
C = Total value of the investment pool

For example, an institution that invested 30 percent of its investment pool sustainably would earn half of the points available in Part 1.

Part 2

An institution earns the maximum points available for Part 2 for engaging in all of the activities outlined in the criteria. Partial points are available. Points awarded according to the following formula:

$$\text{Points earned in Part 2} = (0.5 \times A) \times (B / 6)$$

A = Total points available for this credit (see above)
B = Number of criteria met

Reporting Fields

Required

Part 1

- □ Total value of the *investment pool* (US/Canadian dollars)
- □ Value of holdings in each of the following categories (US/Canadian dollars):
    - ○ Sustainable industries (e.g., renewable energy or sustainable forestry)
    - ○ Businesses selected for exemplary sustainability performance (e.g., using criteria specified in a sustainable investment policy)
    - ○ Sustainability investment funds (e.g., a renewable energy or impact investment fund)
    - ○ Community development financial institutions (CDFI) or the equivalent (including funds that invest primarily in CDFIs or the equivalent)
    - ○ Socially responsible mutual funds with *positive screens* or the equivalent
    - ○ Green revolving funds funded from the endowment

  If any of the above is greater than zero, provide:
    - ○ A brief description of the companies, funds, and/or institutions referenced above (Specific disclosure of holdings, e.g., fund or company names, is not required; general information about the industries or fund types represented by the holdings is sufficient.)

Part 2

- □ Does the institution have a publicly available sustainable investment policy?

If yes, provide:

    - A copy of the sustainable investment policy (text or PDF upload)

- ☐ Does the institution use its sustainable investment policy to select and guide investment managers?

  If yes, provide:

    - A brief description of how the sustainable investment policy is applied (including recent examples)

- ☐ Has the institution engaged in proxy voting, either by its CIR or other committee or through the use of guidelines, to promote sustainability during the previous three years?

  If yes, provide:

    - A copy of the proxy voting guidelines or proxy record or a brief description of how managers are adhering to policy (text or PDF upload)

- ☐ Has the institution filed or co-filed one or more shareholder resolutions that address sustainability or submitted one or more letters about social or environmental responsibility to a company in which it holds investments during the previous three years?

  If yes, provide:

    - Examples of how the institution has engaged with corporations in its portfolio about sustainability issues during the previous three years

- ☐ Does the institution participate in a public divestment effort and/or have a publicly available investment policy with negative screens?

  If yes, provide:

    - A brief description of the divestment effort or negative screens and how they have been implemented
    - Approximate percentage of endowment that the divestment effort and/or negative screens apply to (0-100)

- ☐ Does the institution engage in policy advocacy by participating in investor networks and/or engage in inter-organizational collaborations to share best practices?

  If yes, provide:

    - A brief description of the investor networks and/or collaborations

Optional

- ☐ Website URL where information about the institution’s sustainable investment efforts is available
- ☐ Additional documentation to support the submission (upload)
- ☐ Data source(s) and notes about the submission
- ☐ Contact information for a responsible party (an employee who can respond to questions regarding the data once it is submitted and available to the public)

Measurement

Timeframe

Report on current policies and actions taken within the three years prior to the anticipated date of submission.

Sampling and Data Standards

Part 1

Report on a snapshot of the entire investment portfolio. Reporting on a sample of the endowment or a special fund of the endowment is not allowed for this credit. Institutions should strive to report on a representative snapshot. Institutions for which investments are handled by the university system, a separate foundation of the institution and/or a management company contracted by the institution should report on the combined activities of those entities to the extent possible and document any anomalies under “Notes about the submission”.

Part 2

Institutions for which investments are handled by the university system, a separate foundation of the institution and/or a management company contracted by the institution should report on the combined activities of those entities.

Standards and Terms

Community development financial institution
Consistent with the Responsible Endowments Coalition, a Community Development Financial Institution (CDFI) is defined as:

> A financial institution established to provide credit, financial services, and other services to underserved markets or populations.

Investing in CDFIs promotes sustainability by helping provide credit to individuals and communities who are underserved by conventional lending institutions. In addition, CDFIs provide an opportunity for institutions to invest in their local communities.

Endowment
Consistent with the U.S. Department of Education, endowment funds are defined as “funds whose principal is nonexpendable (true endowment) and that are intended to be invested to provide earnings for institutional use. Also includes term endowments and funds functioning as endowment.”

Investment pool
Consistent with the National Association of College and University Business Officers (NACUBO), “investment pool” is defined as:

> The predominant asset pool or grouping of assets that is organized primarily to support the institution and reflect its investment policies.

Negative screens
Consistent with the Responsible Endowments Coalition negative screens are defined as follows:

> Sometimes investors exclude certain companies or industries from their portfolios by negatively screening their funds. For example, an investor may decide to screen out:
>
> - Tobacco companies
> - Alcohol companies
> - Gambling companies
> - Weapons manufacturers
> - Nuclear power companies

- Resource extractors (coal, oil and gas)
- Companies with especially poor human rights or environmental records

> … Divestment is the act of selling all of one's shares of a given company or type of asset for an explicit political or social reason. Divestment is perhaps the most extreme action an investor can take to reprimand irresponsible corporations.

Positive screens
A positively screened fund is one in which managers proactively select businesses based on exemplary social and/or environmental performance.

Proxy voting
Consistent with the Responsible Endowments Coalition, proxy voting is defined as follows:

> Shareholders vote on resolutions before or during the annual meeting. Roughly one month before the meeting, each company sends out an Annual Proxy Statement containing the year's resolutions to all shareholders for them to vote on, (in person, online, by mail or by phone). They can also vote in person at the meeting.

Shareholder resolution
Consistent with the Responsible Endowments Coalition, shareholder resolutions are defined as:

> Formal statements that are sent annually to every single shareholder of a publicly traded company on a "proxy ballot." Shareholder resolutions are also known as shareholder proposals or proxy resolutions. These resolutions usually work like a non-binding referendum on a specific issue within a firm.

Scoring Example: Sustainable Investment

Model College's investment pool totals $100 million, making 3 points available for the credit.

The college invests $20 million in sustainable industries and community development financial institutions. The college also engages as an investor in 3 ways, by: (1) having a sustainable investment policy; (2) using its policy to select and engage its investment managers; and (3) participating in the Investor Network on Climate Risk.

Part 1. Positive sustainability investment

A = Total points available for this credit (3)
B = Value of positive sustainability investments ($20 million)
C = Total value of the investment pool ($100 million)

Points earned in Part 1 = (1.67 × A) × (B / C)
= (1.67 × 3) × (20,000,000 / 100,000,000)
= 5.01 × 0.2
= 1 point

Part 2. Investor engagement

A = Total points available for this credit (3)
B = Number of criteria met (3)

Points earned in Part 2 = $(0.5 \times A) \times (B / 6)$
$= (0.5 \times 3) \times (3 / 6)$
$= 1.5 \times 0.5$
= 0.75 points

Total points earned for this credit = 1 + 0.75
= 1.75 out of 3