

STATEMENT BY THE UNIVERSITY OF VERMONT BOARD OF TRUSTEES INVESTMENT SUBCOMMITTEE

Presented to the Board of Trustees Committee of the Whole February 5, 2016

The Administration and the Board of Trustees are asked, from time to time, to examine the University of Vermont's role in addressing public policy issues, including the challenge of global climate change. In light of the University's institutional preeminence with respect to environmental programs and environmentally sound practices, we expect and welcome engagement regarding global climate change from members of our community.

Over the past several years, members of the University community have called upon the University to address the challenge of global climate change through divestment of the University's endowment from certain companies. The most recent formal request for action is a recommendation from the Socially Responsible Investing Advisory Council (SRIAC) through the Vice President for Finance, whom the Council advises. The Council recommended that "the University commit to removing current and all future investments in the University's holdings, that are actively managed, in coal companies."

For the reasons set forth below, the Investment Subcommittee (ISC) of the Board will decline to present the resolution for action, while at the same time the Board of Trustees and the Administration reaffirm the commitment of the University of Vermont to responsible and proactive environmental policies at the University. It is important to note that the University of Vermont endowment has no direct investments in coal companies and the ISC has no current intentions to make direct investments in coal companies. Therefore, no endowment holdings would be impacted by a coal divestment resolution.

Decision and Rationale

To enable the University to advance its goals, the University Statement of Investment Policies and Objectives (SIPO) requires that the endowment be optimally invested in a manner consistent with prudent investment principles (see SIPO background below). All of the dollars drawn from the endowment directly support the University's academic mission through student scholarships, endowed chairs and professorships, and academic unit operations (see Chart 1 below). Achieving the objectives set forth in the SIPO is essential to prudent stewardship of endowment assets in a manner that enables the University to fulfill its academic mission.

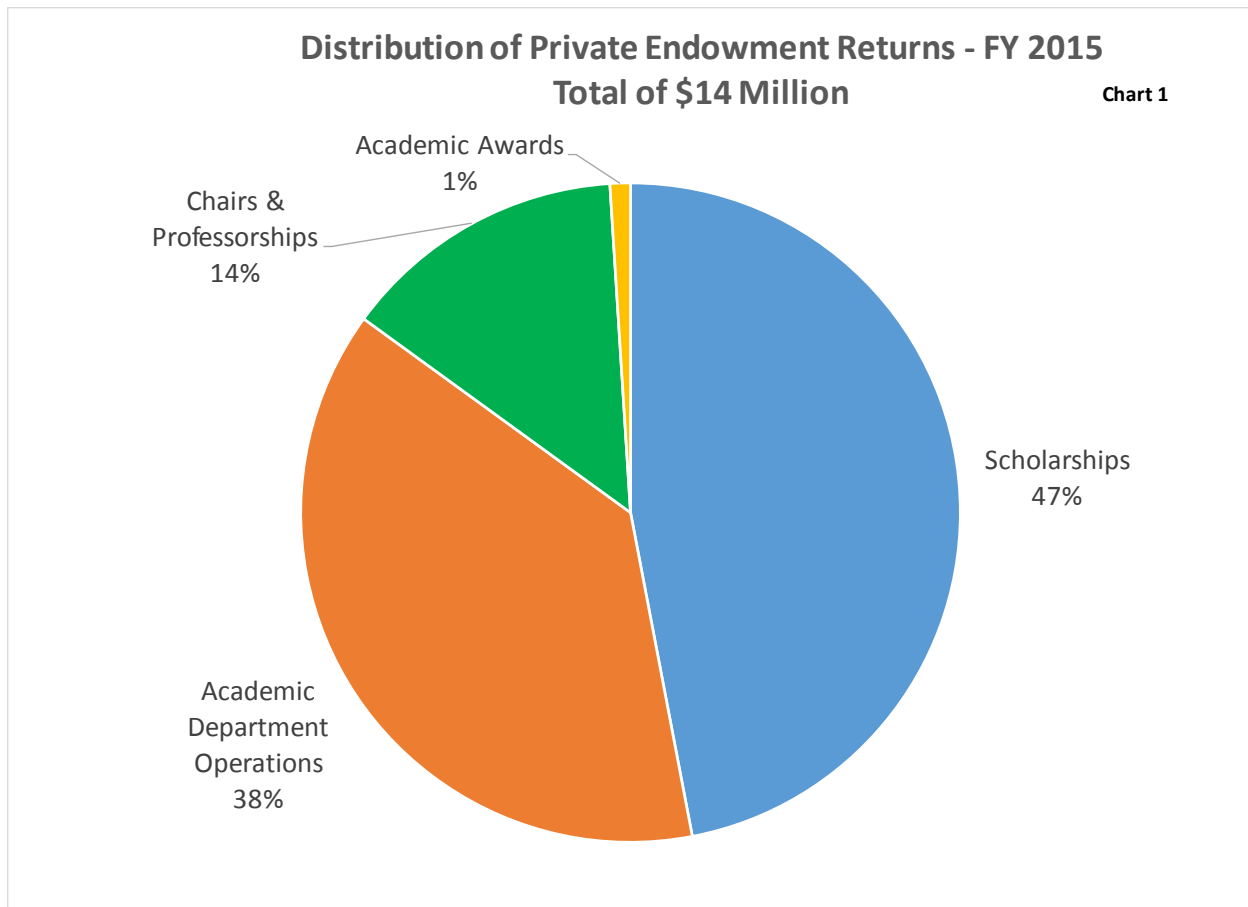


Chart 1

The University of Vermont's endowment is invested primarily in commingled funds. These commingled funds are administered by independent investment managers who have investment discretion. Commingled funds are used by the ISC in order to meet return, diversification, liquidity, and expense objectives in compliance with the SIPO.

A move away from the use of commingled funds to meet divestment objectives would be financially imprudent. For one, such a move would burden the endowment with substantial immediate costs created by the liquidation and reinvestment of assets. More importantly, excluding commingled funds from potential investment opportunities would have adverse consequences on the long-term return and diversification profile of the endowment fund, would increase the risk of volatility in the investment portfolio, and would be inconsistent with the investment policy objectives outlined in the SIPO.

The financial and investment objectives of the SIPO are designed to achieve returns sufficient to support the University's programs and enhance the real purchasing power of the endowment over time. Adherence to the investment objectives in the SIPO does not preclude consideration of moral, ethical, and social criteria in selecting investments or

participating in proxy voting or shareholder resolutions. However, the primary responsibility of the ISC is to steward endowment fund assets in a manner consistent with prudent fiduciary practices.

For these reasons, the ISC will not act on the recommendation of the SRIAC regarding divestment from direct holdings in coal companies. This decision also is consistent with the ISC's December 13, 2013 statement regarding fossil fuels, which emphasized that "its primary duty is to invest the endowment to maximize returns, minimize risk, and provide funds to support the academic mission of UVM. . . [T]he 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." Instead, the University should continue to lead by proactive, positive intellectual and financial strategies that respond to the challenges of global climate change, not by divesting from particular companies or energy sources. The latter does not affect the companies directly, but merely changes ownership and leaves the divesting entity without any shareholder voice within the company.

The ISC requested that the Administration provide a list of the University's accomplishments and programs in process that illustrate UVM's environmental focus. That list is attached as Appendix A.

SIPO Background

The SIPO requires the Board, the ISC, the Treasurer, and third parties, such as investment managers, to exercise their responsibilities with respect to the long-term investment pool, including endowment assets, in compliance with the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). These requirements were drafted by the National Conference of Commissioners on Uniform State Laws and enacted into law by the State of Vermont and 48 other states.

In accordance with UPMIFA, key facets of the Responsible Parties' roles, as paraphrased below, include:

- Acting in good faith with the care an ordinarily prudent person would exercise;
- Incurring only reasonable costs in investing and managing charitable funds;
- Making decisions about each asset in the context of the portfolio of investments as part of an overall investment strategy;
- Diversifying investments unless, due to special circumstances, the purposes of the fund are better served without diversification; and
- Disposing of unsuitable assets.

As the ISC considered the SRIAC's recommendation for divestment, the ISC considered its key roles and responsibilities under the SIPO, UPMIFA and Vermont State Law, and the importance of maximizing returns, minimizing risk, and managing the volatility of the privately-funded endowment, which supports the important activities illustrated in Chart 1.

Conclusion

For the all of the reasons elaborated above, the Investment Subcommittee of the Board of Trustees will not endorse a formal resolution to divest the University's endowment assets from direct investments in coal companies. As described above, the endowment currently has no direct investments in coal companies and the ISC has no present intent to so invest. We appreciate the efforts of the Socially Responsible Investing Advisory Council and thank the members for their ongoing work on behalf of the University.

Institutional Environmental Accomplishments

The University has long dedicated itself to investment of its intellectual and financial assets in environmental programs and initiatives. A campus-wide Environmental Program was established by presidential mandate in 1972 to meet the need for greater understanding of the ecological and cultural systems supporting all life on earth. The University's academic programs and research reflect its tradition of environmental leadership. The solutions to environmental problems ultimately may be revealed through the discoveries and problem-solving of our faculty, students, and alumni in the numerous fields of study that environmental issues encompass.

Examples of the University's environmental leadership in academics and research include, in no order of priority:

- The University has established its own Rubenstein School of the Environment and Natural Resources whose faculty are dedicated to applied environmental research in service and who collaborate nationally and internationally with other researchers.
- The University's B.S. degree in Environmental Sciences allows for the exploration of areas of concentration that include Global Climate Change, Agriculture and Environment, Conservation Biology and Biodiversity, Ecological Design, Environmental Analysis and Assessment, Environmental Biology, Environmental Chemistry, Environmental Geology, and Water Resources.
- The University is moving toward the launch of a University-wide Institute for the Environment.
- Faculty in the Civil and Environmental Engineering program of the College of Engineering and Mathematics emphasize both rigorous technical education and social awareness, preparing students to become engineering leaders and innovators who are empowered to make the world a better place for all.
- The UVM Foundation Green Fund endows a faculty member whose expertise is in the area of renewable energy production. The Green Fund offers a donation alternative free of investments in companies that engage in the production of fossil fuels.
- Sustainability is included in the University's General Education Requirements.

- The Grossman School of Business created a Sustainable Entrepreneurship MBA Program.
- The Sustainability Faculty Fellows Program supports faculty from diverse disciplines.
- Student Eco-Reps teach peers environmental responsibility and support culture change.
- The student-led Clean Energy Fund supports lectures, plans, studies, and sustainable campus projects.
- The Community-University Partnerships & Service Learning Program supports sustainability across multiple disciplines.
- Strong, long-running environmental studies and science programs bridge disciplines.
- Sustainability in research spans multiple disciplines, centers, and institutes.

The University also is a responsible steward of the environment in its operational practices:

- The UVM Office of Sustainability fosters sustainable development and promotes environmental responsibility at UVM by strategically bridging the academic activities of teaching, research, and outreach with the operations of the University.
- The UVM Energy Management program promotes conserving electricity, fuel, and water as part of its goals and has made substantial infrastructure improvements over the past decade to that end.
- UVM achieved a STARS (Sustainability Tracking, Assessment & Rating System) gold rating from the Association for the Advancement of Sustainability in Higher Education.
- In 2006, the Environmental Council updated the University's energy guidelines, which outline methods and procedures to reduce energy consumption in campus buildings, the Central Heating Plant, underground service mains, new construction, lighting, heating, air conditioning, ventilation, water usage, transportation, and solid waste.

- UVM participates in the LEED (Leadership in Energy & Environmental Design) certification program, which is based on a set of design and construction practices that significantly reduce the negative impact of buildings on the environment in five broad areas: sustainable site planning; safeguarding water and water efficiency; energy efficiency and renewable energy; conservation of materials and resources; and indoor environmental quality. The University has adopted a policy requiring all newly constructed buildings to meet LEED Silver requirements, defining the University's commitment to a high level of environmental sustainability in all new buildings and in major renovations of existing buildings. The University's newer buildings meet the LEED Gold requirements.
- Sustainability-themed housing is offered in LEED-certified residence halls.
- UVM was the first public flagship university to ban the sale of bottled water. The University's contract with its dining services vendor includes UVM's commitment to the Real Food Challenge and the consumption of local drinking water.
- UVM has created a pedestrian and bike-friendly campus, which is supported by participation in the Community Transportation Management Association (CATMA).
- The University's dedication to functioning in an environmentally responsible manner is further evident in UVM's status as a Charter Signatory of the Presidents' Climate Commitment in 2007. The University's Climate Action Plan (2010) calls for the use of certified renewable power or carbon offsets by 2015 (accomplished) and for carbon neutrality by 2025. This obligation reflects both a policy position and a direct and substantial financial investment in sustainability.
- UVM is among those higher education institutions that have taken the White House Climate Pledge.