COLUMBIA UNIVERSITY
IN THE CITY OF NEW YORK

ADVISORY COMMITTEE ON SOCIALLY RESPONSIBLE INVESTING (ACSRI)

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May 17, 2023

Mr. Matthew Ruppert
Energy & Environment Center Director
Columbia Policy Institute
Columbia College,
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Dear Matthew,

Thank you for your proposal to the Advisory Committee on Socially Responsible Investing (ACSRI) on behalf of the Columbia Policy Institute regarding Columbia University's policy on fossil fuels. The ACSRI has had the opportunity to discuss your proposal at several meetings this spring term, and the Fossil Fuel Subcommittee of the ACSRI has carefully researched each of the issues raised.

The view of the Committee is that your proposal has raised at least three important issues with respect to transparency in the implementation of the University's fossil fuel policy. This letter will clarify and respond to each of these issues.

1. *"We urge the ACSRI to recommend to the trustees of Columbia University to direct Columbia Investment Management Company (CIMC) to cease all remaining, and abstain from any future investments, in private funds which are involved, funded, or themselves invested in companies whose business is reliant on fossil fuel extraction and use. This extends to companies reliant upon oil and gas as secondary sources of income revenue streams. In short, we hope the University will close the indirect investment loophole."*

Upon the request of the ACSRI, the Columbia Investment Management Company ("IMC") has clarified its position on investments in funds with exposure to fossil fuel companies, as follows.

> "Since the adoption of the University Investment Policy on Fossil Fuels in January 2021, we have not made any direct investments in publicly traded E&P and integrated oil and gas companies nor have we invested in any private asset funds that primarily invest in the oil and gas companies. Almost all of the University's investment exposure to fossil fuel

was in private asset funds, and when we committed to no new investments with these funds, it was a conscious decision to target our greatest exposure (notwithstanding any investments that might meet the new investment criteria), understanding it would take time to reduce these positions without material losses.

A large portion of the endowment is invested in co-mingled funds where we invest alongside other institutional investors. This strategy allows us to have access to the most talented investors across different asset classes and to share the cost of hiring this talent with other asset owners. Consistent with our Investment Policy on Fossil Fuels, we have also not invested with global equities funds or hedge funds that specialize in investing in the Energy sector. For more generalist co-mingled funds, we are not able to restrict managers from the potential to invest in energy stocks or provide an energy free option, meaning our only option to achieve this outcome would be to refrain from these generalist fund investments altogether. We believe strongly that would limit our ability to access the best generalist managers, and that our practices do not conflict with the University's Investment Policy on Fossil Fuels. The exposure to fossil fuels through generalist managers continues to be a small percentage of our portfolio. Looking at our indirect exposure to energy investments, through generalist co-mingled funds, our allocation is 0.73% of the overall portfolio across public equities, hedge funds and generalist private equity funds as of the end of calendar year 2022."

"Additionally, from time to time we invest in ETFs (exchange-traded funds), which are a passive basket of public stocks, and as such also hold energy stocks. All of the exposure through these holdings are about 0.31% of the total portfolio as of the end of the calendar year 2022."

The ACSRI finds that the IMC has taken reasonable steps to significantly reduce exposure to fossil fuel companies given that policy which was adopted targeted the area of significant energy holdings, our private asset fund investments focused on energy. The remainder of the endowment is invested through outside fund managers that are more generalist or focused on funds or strategies not specific to energy. Columbia University's endowment, while significant in comparison with many other universities, is small in the overall investment management sector and therefore invests in funds alongside other investors. Restricting these investments only to funds that avoid *all* investments in fossil fuel companies would significantly limit the investment options of the IMC and could meaningfully reduce financial returns. It is the opinion of the ACSRI that the IMC should continue to have the flexibility to invest broadly in funds and ETFs that do not have a strategy of primarily investing in fossil fuel companies.

2. *"We ask that the University publicly define what it considers "primary" and "secondary" fossil fuel revenue businesses in order to promote transparency between the institution and the community it serves."*

The University's fossil fuel policy refrains from investments in "companies whose primary business is the exploration and production of fossil fuels, or integrated oil and gas companies whose business includes the exploration, production and refining and marketing of oil and gas". The IMC uses GICS (Global Industry Classification Standard) codes to determine which companies are in which sector, a practice that is the norm in the investment management community. GICS codes are a global classification standard for assigning companies to a specific economic sector and industry group. For fossil fuel companies, the IMC considers companies included in the Energy GICS code, described below, to be on the restricted list.

> Energy Sector: The Energy Sector comprises companies engaged in exploration & production, refining & marketing, and storage & transportation of oil & gas and coal & consumable fuels. It also includes companies that offer oil & gas equipment and services.

3. *"We request that the University analyze fossil fuel reliance in such a way as to include Scope 2 and Scope 3 emissions."*

In your proposal, it is unclear if this request refers (i) to the evaluation of oil and gas companies on the non-investment/divestment list that might be considered for exclusion, or (ii) if it refers to all companies for potential investment by the IMC. Here we attempt to answer each possible interpretation.

(i) If the proposal is requesting that the evaluation of oil and gas companies on the non-investment/divestment list that are eligible for consideration of exclusion include Scope 2 and 3 emissions, then that request is already being met. As you know, the University has no direct holdings in fossil fuel companies and has refrained from new investments in fossil fuel companies through funds; however, per the University's Fossil Fuel Investment Policy, the ACSRI has created a process for evaluating individual publicly traded oil & gas companies for consideration for investment that includes the following steps:

> 1. Companies must have credible plans for net zero transition by 2050. At minimum, components of a credible plan should include: (1) quantified short-, medium- and long-term GHG emission reduction targets; (2) quantified Scope 1, 2 and 3 GHG emissions reduction targets; and (3) externally verified alignment with a net zero (1.5℃) transition pathway.
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> > ▪ For any leading companies identified, the subcommittee recommends obtaining input from relevant Columbia University experts on the feasibility of such plans – including technical plans to transition the business model, the degree of reliance on offsets, etc.
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> 2. Companies must have made significant strides toward their net zero plan. At minimum, significant strides should include: (1) demonstrated reductions in GHG emissions per megajoule that are on track with the company's stated targets and represent leadership within the oil & gas industry; (2) demonstrated increases in the share of revenue from net zero aligned sources; and (3) demonstrated R&D or M&A in net zero technologies and infrastructure (e.g., renewable energy, carbon capture, storage, sequestration, etc.).
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> > ▪ For any leading companies identified, the subcommittee recommends obtaining

input from relevant Columbia University experts on the significance of such strides toward net zero – including whether a company is considered a leader among oil & gas companies with relevant country/regional transition pathways, and the quality/volume of net zero related R&D and M&A.

The subcommittee also recommends that any oil & gas companies placed on the "investment consideration" list be re-reviewed annually for ongoing alignment with these criteria. To date, no companies have cleared these steps, and the ACSRI has not yet recommended any exclusions from non-investment/divestment to the trustees.

(ii) If the proposal refers to all companies under consideration for investment by the IMC, the inclusion of Scope 2 and 3 emissions would result in an unwieldy and potentially un-informative list of excluded companies, leaving few sectors or companies in which the IMC could invest. For example, nearly all automobile, airline, retail, real estate, and technology companies have high Scope 2 and 3 emissions from the use of fossil fuels. It is the opinion of the ACSRI that exclusion of all companies with high Scope 2 and 3 emissions is infeasible at this point in time.

On behalf of the entire ACSRI, we appreciate the thoughtfulness of the arguments you put forth. Your letter prompted a valuable discussion among members of the Committee, and importantly led to further transparency from the ACSRI and the IMC on the complex issue of fossil fuel investments, and the implementation of our policy.

Very truly yours,

Bruce Usher
Faculty Chair
Advisory Committee on Socially Responsible Investing
Columbia University