COLUMBIA UNIVERSITY
IN THE CITY OF NEW YORK

ADVISORY COMMITTEE ON SOCIALLY RESPONSIBLE INVESTING

February 2, 2018

Mr. Brendan Moore
Columbia College
Columbia University
bdm2133@columbia.edu

Dear Brendan,

Thank you for your proposal on behalf of the Roosevelt Institute to the Advisory Committee on Socially Responsible Investing (the ACSRI) regarding the University's investments in thermal coal. The ACSRI has had the opportunity to discuss your proposal at its December and January meetings.

The view of the Committee is that the concerns you have cited relating to indirect investments were considered carefully by the Committee as recently as just last Spring. At that time, in preparing our recommendation to the Board of Trustees, the ACSRI considered the range of possible actions with respect to thermal coal holdings, including whether to differentiate its recommendations for direct versus indirect holdings. Any such indirect holdings could generally arise from the University's investments in funds that are managed by outside managers. Rather than asking the University not to hold stakes in any fund that might at some points in time hold investments in companies deriving significant revenue from thermal coal, we asked that the University recommend to the managers of the funds in which it invests that they avoid investments in such companies. We believe this to be the best course of action given our concerns with the operational aspects of requiring divestment from indirect holdings. Among other considerations, the Committee was concerned with the practical effectiveness of an active monitoring program for indirect holdings against these criteria, and also that the specificity of our divestment criteria (a thermal coal universe that is determined by our own review each year, not an easily tracked index of companies) might pose a particular challenge for the University in choosing outside managed funds. As a result, it might preclude the University from investments that would otherwise be allowable under the criteria including those that are broad-based in nature and not sector-specific.

Following on the Board of Trustee's decision to divest from thermal coal in the University's direct holdings, it is our understanding that the University notifies its outside managers of its investment policies, including non-investment in thermal coal companies, at least two times per year. The Committee stands by its original recommendation in March 2017 and does not believe it has reason to modify its recommendation to the Board at this time.

We appreciate the thoughtfulness of the arguments you put forth. I should note that your letter prompted a valuable discussion among members of the Committee, and a thorough discussion of the dimensions of this issue. The views I am expressing are not universally held by all members of ACSRI, but do reflect the views of a majority of Committee members. Our governance process is such that the majority opinion is utilized in deciding our actions with respect to recommendations to Columbia's Board of Trustees.

Very truly yours,

Merritt B. Fox
Faculty Chair
Advisory Committee on Socially Responsible Investing
Columbia University

615 West 131st Street, 3rd Floor New York, NY 10027 Tel: 212-851-9823

ACSRI Proposal Submission Overview

Date of Submission to the ACSRI: 12/1/2017

Subject of Review: Thermal Coal Producers via Indirect Investment

Contact Name: Brendan Moore

Contact Email: bdm2133@columbia.edu Phone Number: (207)478-4010

University Affiliation: Student

Dept./Office: Columbia College

Requesting on behalf of an organization? [circle one] Yes No

If yes, which organization? Roosevelt Institute at Columbia University

Provide a summary of the issue, the action requested, and the rationale:

We recommend to the Trustees of Columbia University to direct CIMC to ensure Columbia's entire endowment -- including holdings in hedge funds -- has close to zero exposure (no greater than >0.001% of the endowment) in companies deriving more than 35% of their revenue from thermal coal production within 5 years.

The three criteria for ACSRI to make a recommendation to the Trustees -- namely (1) that there is a broad consensus within the University regarding the issue at hand; (2) the merits of the dispute lie clearly on one side; (3) divestment is more viable and appropriate than ongoing communication and engagement with company management -- have tacitly been met due to the Trustees March 2017 approval of ACSRI's recommendation regarding thermal coal producers.

The Trustees have only moved to divest from the University's direct holdings in thermal coal producers. In the eyes of the University community, attitudes towards divestment do not depend on the direct or indirect nature of the University's holdings. We believe that until the Trustees divest from indirect holdings in thermal coal producers, it has failed to fulfill its self-proclaimed commitment to socially responsible investment and addressing climate change.

Please attach in PDF format the following additional required information and supporting evidence **(20 pages max)**:

1) State which criteria the proposal is using to make the case (1 paragraph)
2) Provide all the critical data with footnotes for any arguments in your proposal
3) Provide research on the possible opposite argument against your conclusions
4) Conclusion - provide bullet points for the final recommendations to the ACSRI citing the criteria for each one

Email the proposal to the ACSRI Staff Administrator as posted on the website

ASCRI Proposal: Columbia Roosevelt Institute

Board of Trustees has articulated a long-standing commitment to addressing climate change, including its March 2017 vote to support[1] a recommendation[2] from the Advisory Committee on Socially Responsible Investing (ACSRI) to divest from companies deriving more than 35% of their revenue from thermal coal production. The proposal of divestment from thermal coal producers met the ACSRI's specified criteria for making a recommendation to the Board of Trustees. Specifically, the Board of Trustees acknowledge that the thermal coal production proposal 1) had a broad consensus within the University community regarding the issue at hand; 2) had merits of the dispute lying clearly on one side and 3) was more viable and appropriate than ongoing communication and engagement with company management. The Trustees have only moved to divest from the University's direct holdings in thermal coal producers. However, the university-recognized community support for divestment cannot possibly be contingent upon the direct or indirect nature of the holdings. We believe that until the Trustees divest from indirect holdings in thermal coal producers, it has failed to fulfill its self-proclaimed commitment to socially responsible investment and addressing climate change. Therefore, we request that the ACSRI recommend to the Trustees of Columbia University to direct Columbia Investment Management Company (CIMC) to ensure Columbia's entire endowment -- including holdings managed by hedge funds -- has close to zero exposure (no greater than >0.001% of the endowment) in companies deriving more than 35% of their revenue from thermal coal production within 5 years.

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1 http://news.columbia.edu/coal

2 https://finance.columbia.edu/files/gateway/content/ACSRI/ACSCRI%20Report.%20Feb%202017.%20Final.%20022217.pdf

We firmly believe all the criteria for the ACSRI to make such a recommendation to the Trustees have already been implicitly satisfied because of the Trustee's March 2017 vote. We selected the 35% criteria because it matches what the Trustees approved. Nevertheless, in this proposal, we will present research that our group -- the Roosevelt Institute at Columbia University -- has conducted regarding the University's involvement with hedge funds.

As of 2016, Columbia a total value of its endowment invested in hedge funds (33%) [3] that is higher than peer institutions such as Harvard (14%) and Yale (22%). Moreover, the amount of money the university has invested in hedge funds has been steadily increasing since 2009 (see Figure 1). Hedge funds charge some of the highest fees[4] in the money-management business because they claim to protect against downside risk and earn market-beating returns, but it's become increasingly clear that these funds are *not* beating the market[5] as they promised. As a response to this poor performance, investors pulled out a record $25 billion in August of 2016[6] with investors often citing that the investment didn't perform well enough to justify the high charges[7]. Additionally, MSCI, which runs global indices used by many pension and hedge funds,

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[3] 2016 Consolidated Financial Statement from The Trustees of Columbia University in the City of New York https://finance.columbia.edu/files/gateway/content/reports/financials2016.pdf

[4] Fung, W., & Hsieh, D. A. (2000). Performance characteristics of hedge funds and commodity funds: Natural vs. spurious biases. *Journal of Financial and Quantitative analysis*, *35*(3), 291-307.

[5] Elizabeth Parisian, AFT and Saqib Bhatti. All that Glitters is Not Gold: An Analysis of U.S. Public Pension Investments in Hedge Funds (2016).
https://www.scribd.com/document/288783750/All-That-Glitters-Is-Not-Gold-An-Analysis-of-U-S-Public-Pension-Investments-in-Hedge-Funds#fullscreen&from_embed

[6]
http://www.crainsnewyork.com/article/20160824/FINANCE/160829934/hedge-funds-suffer-biggest-redemptions-since-2009-as-returns-lag

[7] https://www.wsj.com/articles/new-york-city-public-pension-pulls-hedge-fund-investments-1460655097

found that investors who divested from fossil fuel companies would have earned an average return of 1.2 percentage points more per year since 2010, compared to conventional investors.[8]

Therefore, the recent struggles of hedge funds and the relative success of hedge funds that divest from fossil fuel companies compared to normal funds provide a compelling financial case for Columbia to reduce its endowment's exposure to thermal coal producers. While the fiscal case could be made more broadly applying to other fossil fuel companies as well, the Roosevelt Institute is committed to advocating for practical policy prescriptions and recognizes the potential difficulties of broad-based divestment approaches. We are aware of the ASCRI's reply to a past proposal from Columbia Divest for Climate Justice to divest from Carbon Underground 200™ companies, which stated in part:

> "ACSRI does not believe that such an across-the-board divestment approach would satisfy the demanding criteria for a divestment recommendation... Broad-based divestment by Columbia would be unprecedented given the pattern of the University's previous divestment decisions."

Indeed, according to the ACSRI's reasoning, one of its primary objections to the CDCJ proposal concerned the infeasibility of such demands. Such an objection can hardly be raised in response to our very narrow and tailored request. The ASCRI response also rejected broad-based divestment on the grounds that Columbia is itself a significant consumer of fossil fuels in its daily activities (gasoline for vehicles, natural gas to heat buildings) and therefore investment in fossil fuels is *not* incompatible with the University's values in the same manner as private

8 https://www.theguardian.com/environment/2015/apr/10/fossil-fuel-free-funds-out-performed-conventional-ones-analysis-shows

prisons. Once again, such an argument cannot be made regarding thermal coal producers, as Columbia's fossil fuel consumption relies primarily on consumption of gasoline, natural gas, and electricity produced by fossil-fuel burning generation.

Further reason for the Trustees to direct CIMC to reduce the University's exposure to thermal coal producers via indirect investment from hedge funds is a simple argument of transparency. In Barnard College's 2016 Presidential Task Force to Examine Divestment, Barnard concedes that it can only approximate its endowment's exposure to fossil fuels. The report states

> "Given that the energy sector represents 6% - 7% of the largest financial indexes, many investment managers seek investments in fossil fuel companies largely to maintain portfolio diversity and manage portfolio risk. As of June 30, 2016, Barnard's exposure to fossil fuel investments represented nearly 7% of its total endowment portfolio"[9]

Although Barnard has since moved to abandon its relationship with Investure[10] (with whom it was invested at the time of the Presidential Task Force), it remains the case that divestment from fossil fuels, private prisons, or any other industry is structurally impossible so long as Barnard (or any fund) continues to heavily invest with hedge funds that do not disclose their investments.

From publicly accessible IRS 990 documents and Bloomberg we found that Columbia is invested with Dynamo Brazil IV LLC which has ties to Dynamo Global Master Equity which is invested in PX US Equity or Praxair Inc. Further research of their business indicates that Praxair Inc is "the largest North American industrial gas supplier" and in 2011 "agreed to develop and

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[9] Presidential Task Force to Examine Divestment
https://barnard.edu/sites/default/files/bc-divestmentreport2-2016dec.pdf

[10] https://www.bloomberg.com/news/articles/2017-09-13/barnard-replaces-investure-as-manager-of-286-million-endowment

market a new process…to produce direct reduced iron…which is usually made from a gas produced from natural gas or coal".[11] This is one example that shows the possible continued exposure to thermal coal. While this is not a prominent example of coal use, this was the only example we were able to determine given the opaque manner by which Columbia reports its investments.

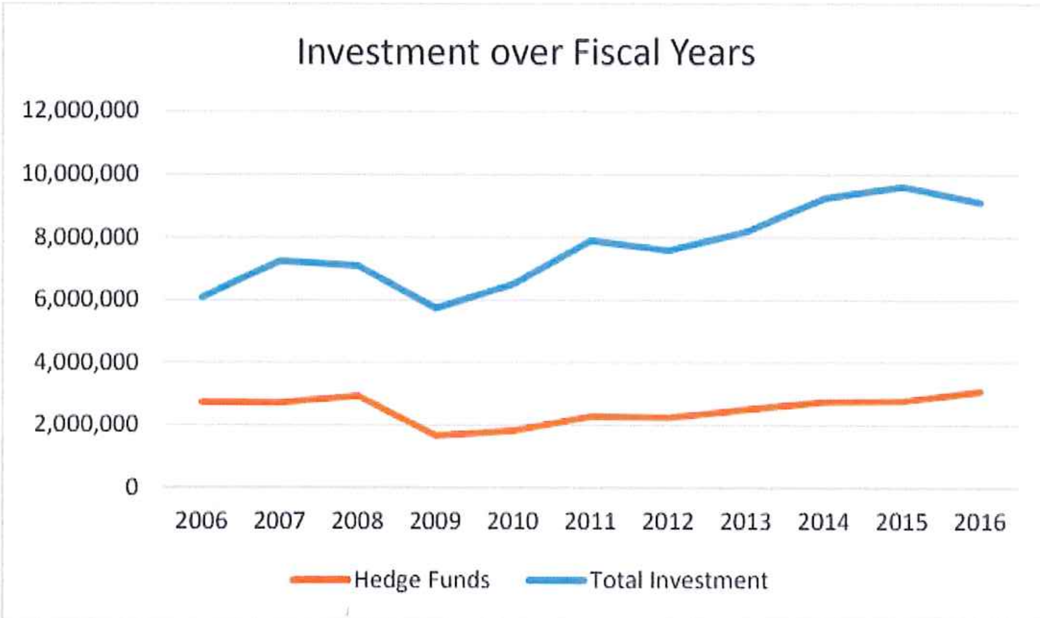
Because this proposal does not claim that divestment induce lasting economic consequences on companies that produce thermal coal, any counterarguments that divestment is a financially ineffective tool for combatting climate change do not apply. Moreover, this proposal does not assert the powerful symbolic value of divestment, so counterarguments which claim the University's values regarding climate change are better reflected through actual sustainability measures rather than divestment are also besides the point. One counterargument that could be made for our proposal is that it is financially risky or infeasible to reduce exposure to thermal coal producers through hedge funds. If the most "profitable" limited partnership funds with which CIMC invests are also ones that invest in thermal coal producers as part of an overall portfolio, and thus terminating a relationship with such funds would be costly to the University, this information about specific funds should be made publicly available. The Roosevelt Institute and other stakeholders of Columbia University believe it would be valuable to know the relative success, returns and fees corresponding to individual funds with which CIMC invests if the Trustees or the ACSRI offer a response outlining concerns about the financial risks of divestment.

[11] Information from Bloomberg Terminal

Conclusion:

- We request that the ASCRI recommend to the Trustees of Columbia University to direct CIMC to ensure Columbia's entire endowment -- including holdings in hedge funds -- has close to zero exposure (no greater than >0.001% of the endowment) in companies deriving more than 35% of their revenue from thermal coal production within 5 years.
- The three criteria for the ACSRI to make a recommendation to the Trustees -- namely (1) that there is a broad consensus within the University regarding the issue at hand; (2) the merits of the dispute lie clearly on one side; (3) divestment is more viable and appropriate than ongoing communication and engagement with company management -- have tacitly been met due to the Trustees March 2017 approval of the ACSRI's recommendation regarding thermal coal producers. In the eyes of the University community, attitudes towards divestment are not contingent upon the direct or indirect nature of the University's holdings.

Figure 1


Investment over Fiscal Years
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
0
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Hedge Funds
Total Investment