

**PRELIMINARY DRAFT REPORT OF THE UNIVERSITY OF UTAH ACADEMIC SENATE
AD HOC COMMITTEE FOR DIVESTMENT AND STRATEGIC REINVESTMENT INVESTIGATION**

Table of Contents

*Denotes lead author overseeing information gathering, writing, editing

Committee Charge and List of Committee Members

BY ACADEMIC SENATE

Introduction

BY ALLYSON MOWER

Section 1. Defining Fossil Fuel Industries and Their Impacts on Society

BY MILIND DEO*, THURE CERLING, MITCHELL WULFMAN, REBECCA HARDENBROOK

Section 2. Background of Previous U of U Efforts

BY ALLYSON MOWER

Section 3. Overview of Current U of U Investment Strategies

BY BOB ADLER*, JON SHEAR

Section 4. Summary of the History of Fossil Fuel/Green Energy Markets

BY THURE CERLING*, REBECCA HARDENBROOK, MITCHELL WULFMAN, MILIND DEO, BEN DREWES, PIPER CHRISTIAN

Section 5. Corporate Governance

BY KARL LINS*, MITCHELL WULFMAN

Section 6. Highlights from Other Institutions

BY REBECCA HARDENBROOK*, KERRY CASE, SARAH GEORGE, PIPER CHRISTIAN

Section 7. Feedback from U of U community

BY DANIELLE ENDRES*, PIPER CHRISTIAN, REBECCA HARDENBROOK, BOB ADLER, ALEX FARLEY, MICHAEL BARD

Section 8. Summaries and Takeaways

BY KEVIN HANSON*, MITCHELL WULFMAN*, KERRY CASE, SARAH GEORGE, KAREN BUCHI, KARL LINS, REBECCA HARDENBROOK

Section 9. Recommendations

BY COMMITTEE MEMBERS

1. NAME

The name of this committee shall be the Senate ad-hoc Committee for Divestment and Strategic Reinvestment Investigation.

2. PURPOSE

The Committee will serve to inform the Academic Senate with regards to the divestment of its endowment fund on best actions that balance the economic, ethical, community, and environmental concerns of the university. The Committee shall be responsible for three main tasks:

- a. Investigate how our university endowment fund is invested in the fossil fuel industry and how different levels of divestment and responsible reinvestment options would affect various sectors on campus;
- b. host campus-wide information panels and discussions at least once a month which shall be open to the campus community; and
- c. draft a full report and 10-year proposal regarding the next steps for the Academic Senate.

The Committee shall report to the Academic Senate at least once each semester.

3. MEMBERSHIP

The Committee will adhere to the University Policy 6-002 regarding membership while also requiring the following membership criteria:

- a. The Committee will be composed of 16 members, including 8 voting career-line and tenured faculty, 3 voting student representatives, and 5 non-voting members representing each of the President's Office, the Investments Office, the Sustainability Office, the ASUU Sustainability Board, and the Staff Council.
- b. One of the faculty members shall be a representative from the Senate Advisory Committee on University Strategic Planning. All other faculty members of the Committee shall be appointed by the Senate Executive Committee.
- c. The student representatives shall be appointed by the Office of Sustainability.
- d. Terms for the members of the Committee shall expire no sooner than the end of the 2020-21 academic year and may be extended if the Committee's purpose has not been fulfilled within this first year.

Faculty

Allyson Mower, Committee Chair, Marriot Library, former Senate President

Robert Adler, Professor of Law, former Dean

Kevin Hanson, Assoc. Professor, Film & Media Arts, Senator

Thure Cerling, Distinguished Professor of Geology & Geophysics

Milind Deo, Professor & Chair of Department of Chemical Engineering

Karen Buchi, Professor (Clinical) Pediatrics

Danielle Endres, Professor, Department of Communication

Karl Lins, Professor of Finance

Students

Piper Christian
Rebecca Hardenbrook
Mitchell Wulfman

Ex Officio (non-voting)

Sarah George, Campus Chief Advancement Officer, former Exec. Dir, MNHU, President's Office)
Jonathan Shear, University Chief Investment Officer (Investments Office)
Kerry Case, University Chief Sustainability Officer (Office of Sustainability)
Michael Bard, Office of Registrar (Staff Council)
Alex Farley (ASUU Sustainability Board)

Introduction

The University of Utah has a mission to educate, generate new knowledge, and improve quality of life for students and those in the region.

The mission to improve quality of life is underpinned by the institution's sustainability commitments, particularly its goal to become carbon neutral by 2050. Through its stated climate commitments, the institution positively acknowledges the role greenhouse gases play in climate change, global warming, and adverse effects on quality of life for students and local populations.

The institution's sustainability commitments get embedded through its policies and procedures. The procurement policy (3-100) prioritizes environmentally preferred purchasing and has a commitment to locating and encouraging small, socially/economically disadvantaged and women-owned and veteran owned businesses to become suppliers to the University on a continuing basis. The institution has an anti-vehicle idling policy (3-215) and a community impact policy which seek to minimize any adverse impact of physical facilities on nearby residents, businesses and local government (3-201). The institution has a broad health and safety policy with the goal of promoting good health and well-being of its students, employees, and visitors (3-300).

To support its educational mission and sustainability commitments, the institution utilizes financial donations which get invested in the market by officers representing the institution. Investment officers are bound by the Utah Uniform Prudent Management of Institutional Funds Act as well as institutional investment policies (3-050) and additional state Board of Regents guidelines (R541). Currently, these set of guidelines place a fiduciary duty on investment officers when considering investment of funds. There is currently no requirement that the investment officers also consider the institution's charitable or quality-of-life commitments.

This report intends to argue that the institution's charitable or quality-of-life commitments need to be equally considered, for how can the institution meet its sustainability and quality-of-life goals while simultaneously contributing to and benefiting from financial investments that center on carbon-heavy emissions causal to global warming and the attendant harm to quality of life?

Investment policy (3-050) needs to be updated in order to mirror the institution's climate commitments and sustainability policies and several other changes as recommended by the Academic Senate ad hoc Committee for Divestment and Strategic Reinvestment Investigation. The recommendations are based on the committee's findings over an eight-month investigation as reported in the proceeding nine sections.

Section 1 Fossil Fuels and Society

Providing sufficient energy while safeguarding the environment and mitigating the effects on climate change are the most important challenges of this and the next few generations.

Consensus on Climate Change, Cause and Adverse Effects

Observations all over the world make it clear that climate change is occurring, and rigorous scientific research demonstrates that the greenhouse gases emitted by human activities are the primary driver. A [report by NASA](#) shares that, “Multiple studies published in peer-reviewed scientific journals¹ show that 97 percent or more of actively publishing climate scientists agree*: Climate-warming trends over the past century are extremely likely due to human activities.”

Carbon Dioxide is emitted when we burn carbon-based materials, such as fossil fuels. Global consumption of fossil fuels has [increased 1,300-fold](#) since 1800. Through atmospheric and ice-core measurements, scientists have found that CO₂ and other greenhouse gas concentrations are increasing (Figure 1). The resultant increase in temperature is causing sea ice to melt and sea levels to rise as shown in Figure 1. Scientists have ruled out a variety of natural factors, and found that at least 93% of observed warming over the last seven decades was due to human activities.

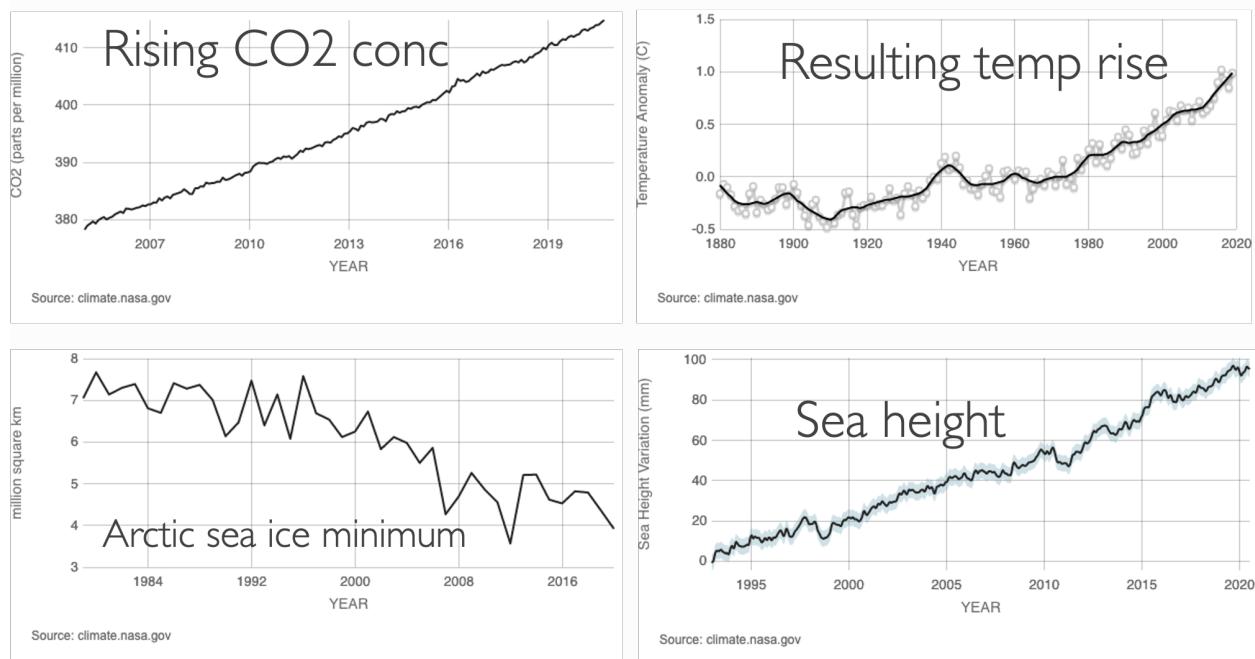


Figure 1: Global CO₂ concentrations have been increasing because of the generation of greenhouse gases by consumption of fossil fuels. The charts above are from climate.nasa.gov maintained by NASA.

The World Health Organization finds that “Climate change is among the greatest health risks of the 21st Century. Rising temperatures and more extreme weather events cost lives directly, increase transmission and spread of infectious diseases, and undermine the environmental determinants of health, including clean air and water, and sufficient food.”

It should be recognized that the impact of pollution exposure on people of color and other disadvantaged populations is greater. Based on a [2012 study](#) by the NRDC, approximately 68% of Black people in the United States have lived within 30 miles of a coal-fired power plant in the past several decades. A [2017 study](#) by M.P.S. Thind et al. also found that Black and low-income Americans are more likely to die from power plant pollution than other populations. These environmental hazards mean that children are less likely to go to school on poor air quality days which are more likely to occur, that folks from these communities are likely to experience higher rates of birth defects, heart disease, asthma, lung disease, learning difficulties, and lower property values.

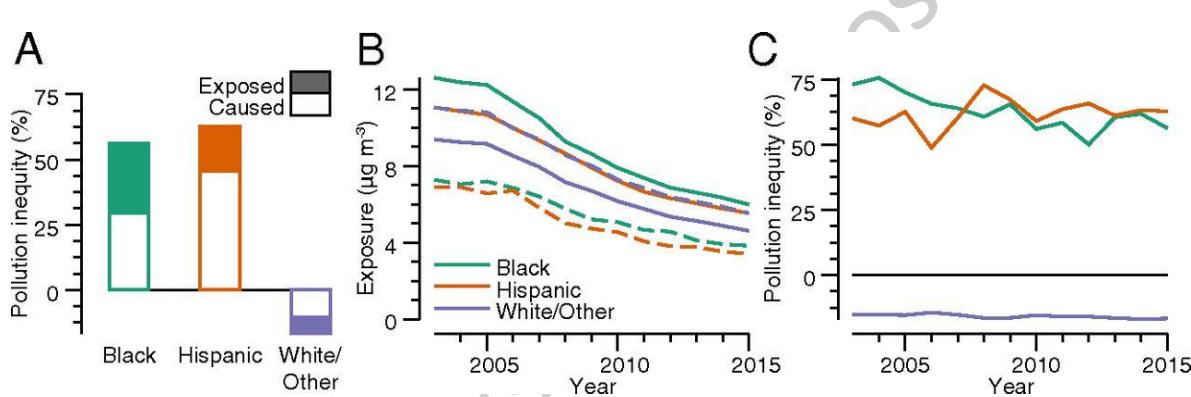


Figure 2: Taken from [Tessum et al., 2019](#). Pollution inequity contributions and trends. (A) Contributions of differences in consumption and location of residence to pollution inequity. (B) Exposure of each racial-ethnic group to PM2.5 caused by the total combined personal consumption of all groups and total-population exposure to PM2.5 caused by each group's population-adjusted consumption. (C) Pollution inequity levels, 2003-2015.

Greenhouse Gas (GHG) Distributions in the US and criteria pollutants

In order to control GHG emissions, we need to understand the source of these emissions. Fossil fuels used to generate energy and to manufacture other products are coal, oil and natural gas. When fossil fuels are burnt, carbon dioxide and water vapor are produced. Carbon dioxide is the most predominant greenhouse gas. Methane is the most significant component in natural gas and is a potent greenhouse gas. Nitrous oxide is also a greenhouse gas and is produced in high-temperature combustion processes. Figure 3 shows the amounts and distributions of greenhouse gas emissions in the United States. The figure highlights the enormous amounts (millions of metric tons) of greenhouse gases that are generated in the United States. Over the last ten years, coal is being substituted by natural gas for electricity generation. Natural gas

combustion produces half the amount of carbon dioxide compared to coal on an equivalent energy basis. As a result, despite an increase in population, there has been a slight downward trend in carbon dioxide emissions over the last ten years or so.

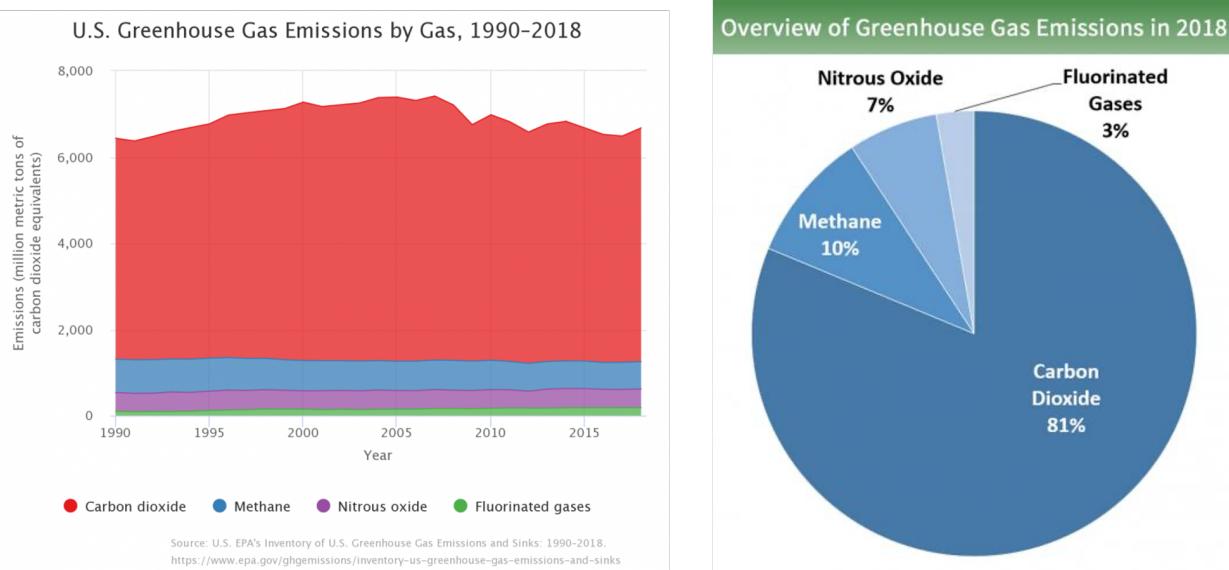


Figure 3: The amounts and percentages of the most common greenhouse gases in the United States. Source – Energy Information Administration and the U.S. Environmental Protection Agency.

It is important to know which economic sectors are contributing to the generation of greenhouse gases. Figure 4 shows the latest available greenhouse gas inventory by different sectors in the United States. The figure shows that the transportation and electricity sectors contribute the most followed by industry. The contribution of greenhouse gas emissions due to electricity generation has slowed in recent years as more renewables have been added to the portfolio and a number of power plants have made a switch to natural gas from coal resulting in lower carbon dioxide emissions. Transportation sector comprises of greenhouse emissions due to internal combustion engine-based passenger cars and commercial vehicles. GHG from commercial and residential heating is when we use natural gas to heat our commercial buildings or homes. The distribution of GHG emissions by sectors underscores the broad societal responsibility in mitigating GHG emissions.

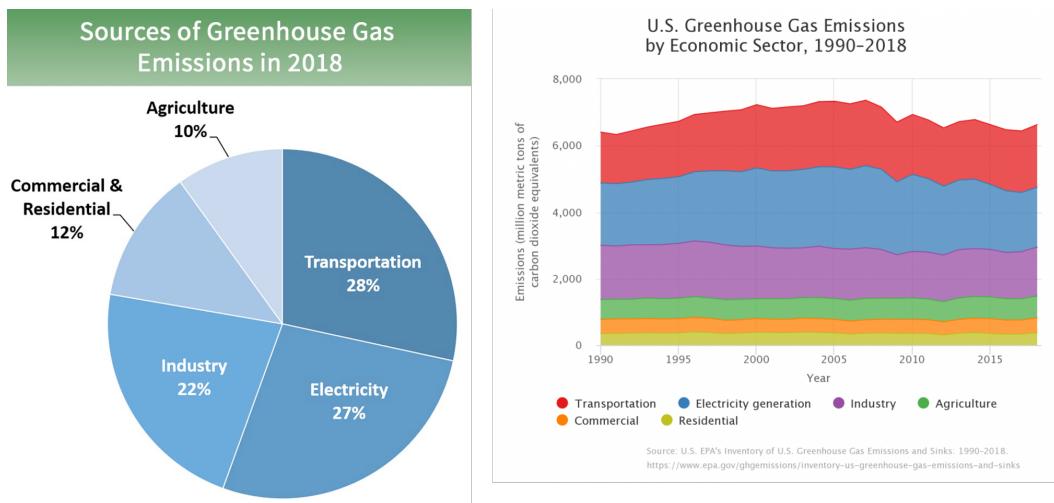


Figure 4. Greenhouse gases generated from the various sectors in the United States - <https://www.epa.gov/ghgemissions/inventory-us-greenhouse-gas-emissions-and-sinks>

Burning fossil fuels generates other pollutants that are more closely regulated. These are called Criteria Pollutants (carbon dioxide is not one of them). For example, three of the eight criteria pollutants are sulfur dioxide, nitrogen oxides, and particulates. Reduction of criteria pollutants usually requires use of additional energy. Disproportionate impact on minority communities as pointed out previously was in fact due to higher exposure to PM2.5 which is a criterion pollutant. Issues related to smog, PM2.5 pollution, etc. are typically local (compared to GHG emissions and climate change which are global) and may need specific tailored solutions. For example, Salt Lake area is in non-compliance for ozone in summer and PM2.5 in winter.

The contribution of individual fossil fuels to GHG generation is highlighted in Figure 5. The chart on the left shows the primary energy sources in the United States in the year 2019 while the chart on the right shows energy consumption by energy type. The figure shows that fossil fuels still dominate both the energy production and consumption with close to 70% of the energy consumed in the US coming from fossil fuels.

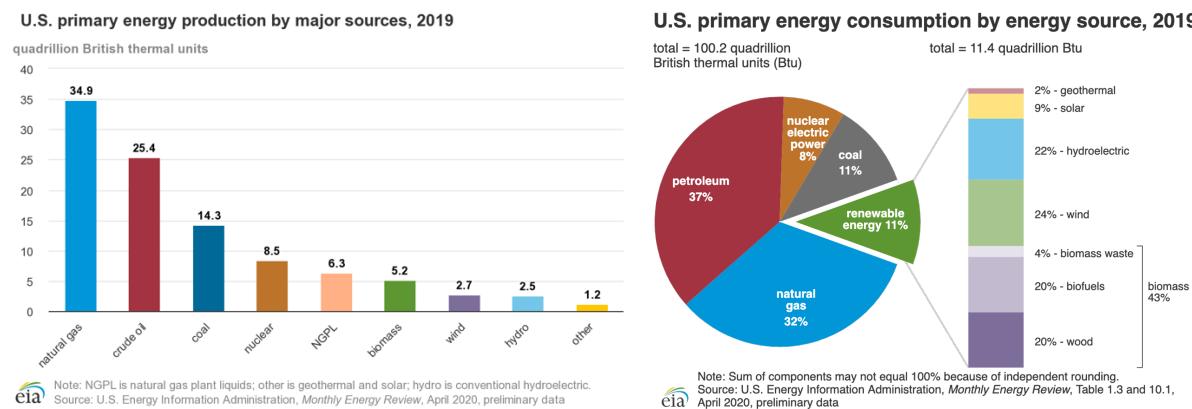


Figure 5: Energy produced and consumed in the United States by energy source.

Figure 6 shows a more detailed breakdown of how different fossil fuels are used in the various economic sectors.

U.S. energy consumption by source and sector, 2019

(Quadrillion Btu)

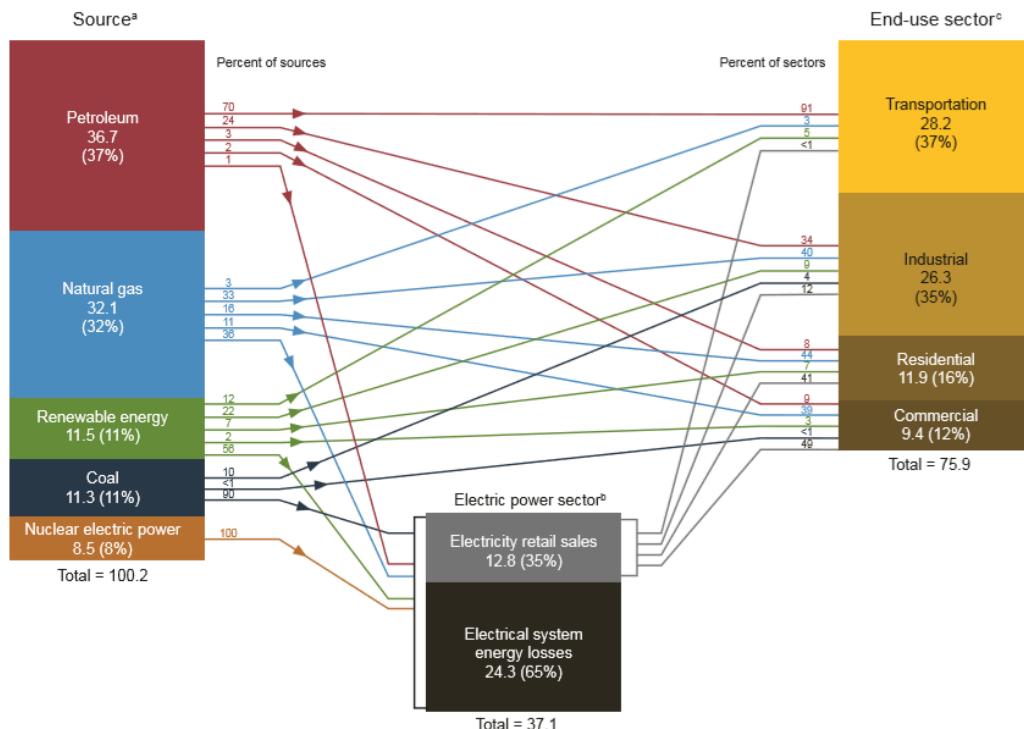


Figure 6: Figure showing how the energy produced using the different sources is consumed in the different economic sectors.

Utah Energy Patterns

Energy produced and consumed in Utah is also dominated by fossil fuels. In particular, the residential sector consumes about 21% of all energy as of 2018. Most of this energy comes from the combustion of natural gas which is used in Utah for home heating and cooking.

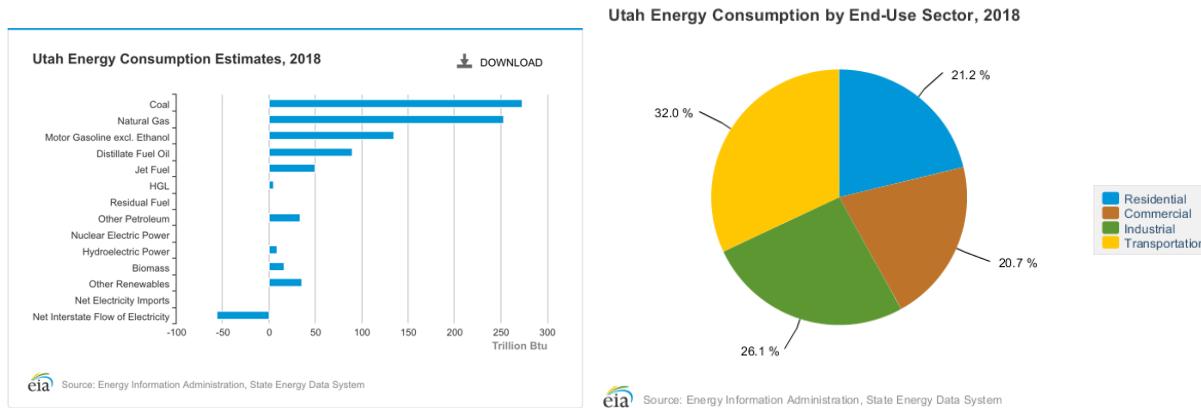


Figure 6: Energy production and consumption patterns in Utah are dominated by the use of fossil fuels.

Petroleum-based products

The fact that combustion of fossil fuels results in GHG emissions and the effect of climate change are reasonably well known. The use of petroleum-based feedstocks for making thousands of consumer products is less well known. For example, natural gas is the primary feedstock for producing ammonia which is used in making fertilizers and a number of other important industrial products. Detergents and all types of plastics have petroleum-based feedstocks. Isopropanol – an essential ingredient in hand sanitizers also has a petroleum-based feedstock. Universal use and consumption of these products again underscores the broad societal responsibility in helping mitigate climate change.

Many energy-intensive industries are fossil fuel consumers either in fact or in kind (through electricity use). The charge to the committee is to investigate how our university endowment fund is invested in the fossil fuel industry and how different levels of divestment and responsible reinvestment options would affect various sectors on campus.

Fossil Fuel Companies

The main choice is between fossil fuel companies with reserves and associated operations, or companies that use fossil fuels and generate greenhouse emissions.

Top 200 companies by reserves have been identified by the organization Fossil Free Solutions. This is the most commonly used definition, with a track record of successful implementation by organizations that have considered divestment. <https://www.ffisolutions.com/research-analytics-index-solutions/research-screening/the-carbon-underground-200/>

List of companies with highest GHG emissions in the United States using data provided to EPA (latest reported data is for the year 2018) are maintained by some academic institutes. An example list is included below.

Example List: <https://www.peri.umass.edu/greenhouse-100-polluters-index-current>

This list contains energy intensive companies that produce greenhouse emissions. These types of compilations have not been used in the past to make investment decisions

Summary

- Human-created greenhouse emissions are increasing global temperatures and causing sea levels to rise; urban pollution also disproportionately affects disadvantaged communities; greenhouse gas emissions must be curbed for planet's sustainability.
- Greenhouse gases are generated from a broad sector of economic and residential activities.
- Fossil fuels still dominate the energy landscape in the United States accounting for over 70% of the energy consumed.
- A balanced and comprehensive approach over the entire energy-product-consumption framework may be necessary to make significant reductions in greenhouse gas emissions.
- There are companies that produce fossil fuels – coal, oil and natural gas. Several other companies use fossil fuels either to generate energy or other products.

Section 2 Background of Previous Efforts at the U of U

The U of U Academic Senate explored divesting from fossil-fuel companies most recently in 2014 and 2015 through two committees. One committee recommended divesting and the other did not address it. In the May 2016 Academic Senate meeting where the proposals were discussed, the discussion ranged widely from divestment being used simply as a political statement to it being a crucial step in the University doing its part to address climate change. Other statements indicated that fossil fuel companies do not represent the world's economic future while others said that oil companies fund emerging technologies.

For the proposed Academic Senate resolution in favor of divestment, there were initially 40 votes in favor of the resolution, 40 votes against, and 4 abstentions. Given the tie, the Senate President acts as a tiebreaker. As Senate President Bill Johnson prepared to cast the tie-breaking vote in 2016, there was a call for a recount and second ballot, with some voters indicating they wished to change their votes. With the recount, there were 44 votes in favor of the resolution, 40 votes against, and 2 abstentions.

With the passed motion, the resolution went to the Board of Trustees in June 2016 where the board and University President decided to maintain fossil fuel companies in the University's investment portfolio—the Trustees expressed sincere appreciation for moving the discussion away from a symbolic statement and towards substantive reinvestment—and cited a preference to focus on increasing positive investments in socially responsible and environmentally sustainable options, for example, while also confirming the University's commitment to addressing climate change through research, teaching, and improved efficiency in operations. The Investment Advisory Committee that has been part of the management of the endowment was not tasked with reinvestments. However, after the discussions of 2015-2016, the U of U Investment Office initiated use of the TIAA Social Choice low carbon equity fund and the Core Impact Bond fund as the two investment vehicles for the endowment Social Choice Pool.

In terms of reinvestments, the Socially Responsible and Environmentally Sustainable Investment Advisory Committee (SRESIAC) was to be sponsored by the Sustainability Office which has not yet been formed, but which the Sustainability Office is exploring. Draft recommendation #7 (in Section 9 below) addresses the outcome of these discussions:

A seat dedicated to the Chief Sustainability Officer will be added to the Investment Advisory Committee to assist in the execution of the [committee's] recommendations.

In April 2020, the U of U Staff Council unanimously approved a climate statement and letter sent to President Watkins and the Board of Trustees which asked "that currently held investments within the University's endowment [be] realigned to include only those in line with our institutional values."

In the spring semester of 2020, a joint resolution unanimously passed by ASUU stated, "[be it resolved] that the Associated Students of the University of Utah urge the University of Utah

administration to produce a detailed plan and timeline for a full divestment and reinvestment strategy for the university endowment for the next 10 years.” That same resolution is what created this ad hoc committee today.

Additional Divestment History at the U of U

A significant example of divestment from U of U history includes the South African anti-apartheid movement in 1987. At the urging of U of U students, the Institutional Council (as the Trustees were called then) voted in June 1987 to “divest our presently held stocks in U.S. companies doing business in South Africa [...]” (Romboy, 1988). The Institutional Council incorporated two caveats into this decision. One, companies with no plans to sell or withdraw their business from South Africa would be selected, but only as long as a comparable investment could be found.

An inadvertent investment was made after this vote in two companies who had not yet withdrawn their business from South Africa: Eli Lily and Schering-Plough. The stock purchases resulted in a gain of \$6,000, but the U of U quickly advised their then-investment managers at First Security Bank and Dean Witter investment firm to sell those stocks (Romboy, 1988).

The purpose of the anti-apartheid divestment movement differed somewhat from the goals of the fossil fuel divestment effort. Anti-apartheid divestment focused on getting American corporations to remove their business from South Africa because they profited from the extreme exploitation of Black workers made possible by a racist system. The goals of fossil fuel divestment, on the other hand, center on supporting companies that might pollute less or possibly pose less risk to the planet.

Both efforts have a similar feel, however, because of demands from U of U students to use institutional power for the purpose of changing behavior on the part of business leaders and shareholders. U of U students who demonstrated as early as 1978 about apartheid saw the possibilities of the weight their university could place—in partnership with other universities—on chief executive officers in America. The same operative vision could be said for U of U students in 2020. Students often want to see the global good come before company profits, admittedly a position somewhat at odds with a chief executive officer’s primary job duty.

What remains different between 1987 and 2020 could possibly stem from the university’s mission statement. The current statement—updated in 2019—prioritizes student success, generating new knowledge, and responsible stewardship of resources with financial coming last in a list that starts with intellectual and physical resources (Academic Affairs, 2020):

The University of Utah fosters student success by preparing students from diverse backgrounds for lives of impact as leaders and citizens. We generate and share new knowledge, discoveries, and innovations, and we engage local and global communities to promote education, health, and quality of life. These contributions, in addition to

responsible stewardship of our intellectual, physical, and financial resources, ensure the long-term success and viability of the institution.

Prioritizing financial resources could be argued to foster student success through scholarships and grants. It could also be argued that a healthy planet will ultimately foster student success. Reasonable people could differ, but one area of agreement includes looking into companies that procure coal without sound research to inform their practices or based on new approaches to extraction, an area that the current Dean of Mines & Earth Sciences says needs shoring up.

The U has a much more specific mission statement now than it did in 1987. According to the U's accreditation report in 1986/87, the mission of the institution was "to serve the common good" (Peterson). The opening line of the mission could, perhaps, have been one of the drivers influencing the Institutional Council's decision to divest from companies doing business in South Africa.

References

Academic Affairs. University of Utah Mission Statement, accessed September 14, 2020
<https://academic-affairs.utah.edu/missionstatement/>

Peterson, Chase Presidential Records, Acc 0483, accessed September 14, 2020
<http://archiveswest.orbiscascade.org/ark:/80444/xv68719>

Romboy, Dennis. "U. Is Keeping Promise to Divest," *Utah Daily Chronicle* March 1, 1988, accessed September 1, 2020 <https://newspapers.lib.utah.edu/ark:/87278/s69350qn/23336677>

Section 3 Overview of Current University of Utah Investment Strategies

Introduction

The University's strategy regarding investment of endowment pool funds is governed by a hierarchy of state statute, Board of Higher Education policy, and University policy and strategic guidance. Some of those sources are binding on the University and can only be changed by other entities (state law by the Utah State Legislature and the Governor; Higher Education policy by the Board of Higher Education). Those externally adopted rules, however, are flexible and allow for judgment by the University. The University can modify its own internal investment guidelines and strategy, but those changes must also be submitted to the Board of Higher Education for approval. For purposes of this report, it is important to understand how much flexibility each of these sources allows with respect to any proposed change in current investment strategy and practice.

This section of the report first identifies and explains the sources of law, policies, and guidance that govern (where they are mandatory) and guide (where they are advisory) University investment policies. It also focuses on the degree of investment flexibility allowed by those sources. It then explains how the University's investment personnel and advisors implement those requirements.

Applicable legal requirements and guidance¹

University investment policies are subject to state statute and state policies. Where applicable, those laws and policies are binding on the University, and can only be changed by the state legislature or the Board of Higher Education, respectively. As explained below, however, none of these sources prohibit the University from adopting a new policy regarding divestment and reinvestment. They do, however, inform the manner in which any such changes would have to be adopted and implemented.

State legislation

Investment and management of the University's endowment pool is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA).² This statute establishes the

¹ This document is not a legal opinion regarding applicable legal requirements and guidance. It simply identifies and describes the documents the University must consider in determining investment policies. This description, however, was reviewed for accuracy by the University's Office of General Counsel.

² Utah Code §§ 51-8-101 et seq. University funds generally are also subject to the State Money Management Act, Utah Code §§ 51-7-1 et seq. However, that statute expressly exempts "endowment funds of higher education institutions" from its provisions. Utah Code § 51-7-2(4). In any event, the investment standards contained in that statute are generally consistent with those in UPMIFA, requiring that state investments reflect "that degree of judgment and care, under the circumstances prevailing at the time the investment is selected, that persons of prudence, discretion, and intelligence exercise in the management of their own affairs." Utah Code § 51-7-14(1).

following “general standard of care” regarding the management and investment of institutional funds, including endowment funds:

- (1) Subject to the intent of a donor expressed in a gift instrument, an institution, in managing and investing an institutional fund, shall consider the charitable purposes of the institution and the purposes of the institutional fund.
- (2) In addition to complying with the duty of loyalty imposed by law other than this chapter, each person responsible for managing and investing an institutional fund shall manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.³

The first portion of subsection (1) of this general standard requires consideration of donor intent. Although donors to University endowments often articulate the intended uses of their donations (such as student scholarships, professorships or other faculty support, research programs, etc.), donors only occasionally dictate the manner in which those funds should be invested. The second portion of subsection (1) instructs institutions to consider “the charitable purposes of the institution.” The statute defines “charitable purpose” broadly to include “the relief of poverty, the advancement of education or religion, the promotion of health, the promotion of governmental purposes, and any other purpose the achievement of which is beneficial to the community.”⁴ This suggests that any officially adopted University policies or practices regarding climate change and sustainability, and the role of fossil fuels in causing or exacerbating climate change, should be considered in delineating the University’s charitable purposes.

Subsection (2) articulates an “ordinary prudent person” standard regarding investment management. It suggests that the University’s endowments must be invested in ways that any prudent investor would adopt under similar circumstances, such as avoiding unduly risky investments, choosing a sufficient diversity of investments to ensure that the overall investment portfolio is buffered from fluctuations in particular economic sectors or investment types, balancing investment income against portfolio growth, etc. It does not, however, dictate specific investments or investments in specific sectors of the economy (whether fossil fuels or any other). In fact, a later provision of the statute provides that “an institution may invest in any kind of property or type consistent with the standards of this section.”⁵

UPMIFA also identifies specific economic and other financial factors the University must consider in managing and investing endowment funds.⁶ This section also provides that “[a]n

³ Utah Code § 51-8-201.

⁴ Utah Code § 51-8-102(1).

⁵ Utah Code § 51-8-202(3)(c).

⁶ The factors include “(i) general economic conditions; (ii) the possible effect of inflation or deflation; (iii) the expected tax consequences, if any, of investment decisions or strategies; (iv) the role that each investment or course of action plays within the overall investment portfolio of the fund; (v) the expected total return from income and the appreciation of investments; (vi) other resources of the institution; (vii) the needs of the institution and the fund to make distributions and to preserve capital; and (viii) an asset’s special relationship or special value, if any, to the charitable purposes of the institution.” Utah Code § 51-8-202(3)(a).

institution shall diversify the investments of an institutional fund unless the institution reasonably determines that, because of special circumstances, the purposes of the fund are better served without diversification.”⁷ Thus, a diversified approach to investment strategy is ordinarily required, but the statute does not further specify what diversification means. These basic goals, therefore, can be met using any number of prudent investment strategies. Notably, however, one of the factors to consider is “an asset’s special relationship or special value, if any, to the charitable purposes of the institution.” Again, therefore, the University’s investment strategy could consider any formal University policies related to climate change and sustainability as helping to define the Universities charitable purposes, so long as those considerations are balanced against the University’s fiduciary duty to donors and to the institution.

Finally, UPMIFA requires an institution to limit the administrative and other investment costs associated with its investment strategy. In particular, the statute permits the institution to incur only those costs that are appropriate and reasonable in relation to the assets, the purposes of the institution, and the skills available to the institution.⁸ This suggests the use of pooled investment funds as the most cost-efficient way for the University to invests its endowment funds.

Board of Higher Education Policy

In addition to this broad statutory guidance, UPMIFA requires the Utah Board of Higher Education to adopt policies governing asset allocations for institutional funds, guidelines for investing those funds, and a written policy governing conflicts of interest with respect to those investments.⁹ In the System of Higher Education’s Policy R541 governing the “Management and Reporting of Institutional Investments,” the Board of Higher Education delegated to each Institutional Board of Trustees the responsibility to manage and report all institutional investments in compliance with that policy. This includes the responsibility to adopt institutional policies and procedures regarding investments, and to report those policies (and any changes to those policies) to the Board of Higher Education.

R541 reiterates the same general factors set forth in UPMIFA that institutions must consider in managing and investing endowment assets, but adds that institutions must consider “the purposes, terms, distribution requirements, and other circumstances of the endowment,” using “reasonable care, skill, and caution.”¹⁰ It also provides that individual assets in an investment pool should not be considered in isolation “but in the context of the endowment portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the endowment.”¹¹ This modest additional guidance continues to confer discretion on individual institutions to determine the types and allocations of investments in

⁷ Utah Code § 51-8-202(3)(d).

⁸ Utah Code § 51-8-202(1)(a).

⁹ Utah Code § 51-8-303(1).

¹⁰ R541 §6.3.1.

¹¹ R541 §6.3.2.

their overall investment portfolio. It neither prohibits nor requires investment in specific economic sectors so long as the overall investment portfolio meets prudent investment objectives.

R541 also contains numeric but very flexible guidelines regarding the types and percentage allocations of investments an institution may retain in its endowment pool. Those additional standards, however, apply only to any institution *that does not have its own approved investment policy*. Even if applicable, those guidelines do not specify economic sectors in which institutions may or may not invest, as opposed to categories of investments such as mutual funds, fixed income (such as bonds), or equities (stocks).¹² However, in lieu of these guidelines, R541 allows individual institutions to adopt their own policies regarding investment strategy, subject to compliance with UPMIFA and approval of the Board of Higher Education. The University of Utah has adopted its own investment guidelines, discussed below, that have been approved by the Board of Higher Education.

University of Utah Board of Trustees Policy and Implementation Strategy

As authorized by UPMIFA and R541, the University of Utah Board of Trustees has periodically adopted, and obtained Board of Higher Education approval of, institutional endowment investment guidelines. The Trustees adopted the current versions of the University of Utah Endowment Pool Investment Guidelines (the “Investment Guidelines”), along with a supporting University of Utah Endowment Pool Investment Implementation Strategy (the “Investment Implementation Strategy”) on September 28, 2015. Both documents are subject to periodic review and revision.

University of Utah Endowment Pool Investment Guidelines

Although the Investment Guidelines restate many of the basic principles included in UPMIFA and R541, they amplify those requirements in several respects. First, they specify the overall goals of the University’s investment policy and strategies.¹³ The primary goal for the endowment is to provide total returns sufficient to ensure that future students and faculty receive the same level of spending resources, adjusted for inflation, as current students and faculty receive, and to provide stable or increasing cash flow to the University’s operating budgets. Secondary goals include financial flexibility for the University’s academic leaders “to strategically manage their colleges and departments to ensure the University continues to achieve its mission of leadership as a research institution on a national level;” and to fund scholarships, fellowships, and current initiatives for individual colleges and departments. These

¹² R541 §6.2. For example, institutions may invest all of its funds in mutual funds registered with the U.S. Securities and Exchange Commission (SEC), investments sponsored by the State’s Common Fund, and other specified investments authorized by Utah statute. However, it may only invest between 25 – 100% in fixed income and cash equivalents, up to 75% in equity investments, up to 30% in defined alternative investments, and only up to 3% in direct stock ownership. R541 §6.2.1 – 6.2.2.

¹³ Investment Guidelines Art. I.

stated goals could be viewed as including the University's current statement of its "charitable purposes" and the "purposes of the institutional fund" as required by UPMIFA.

The Investment Guidelines specify how these goals should be attained in several ways. Article VII of the Guidelines direct the University to "seek to achieve a total rate of return over a described time horizon which exceeds the rate of inflation (as measured by the Consumer Price Index) plus any spending and administrative expenses, thus protecting the purchasing power of the assets" in ways that manage the risk of temporary declines at acceptable levels. The University President selects a target spending rate in consultation with senior financial leadership based on market conditions and other factors, but that rate is typically 4% of the average endowment market value for the previous 12 quarters.¹⁴ Along with new donations, net returns in excess of that spending rate are reinvested to ensure growth in the value of the endowment pool.

Article VIII of the Guidelines identifies eligible categories of investments, including global marketable equities, global marketable fixed income investments, and "alternative investment funds" such as debt, venture capital and private equity, real estate, and notably for purposes of this report, natural resources.¹⁵ That aspect of the Guidelines indicates that the investment pool should be diversified in several ways, including "industry" and "sector" as well as factors such as investment type, regions (including domestic versus foreign), and investment grade. While requiring diversification among industry types and economic sectors, therefore, the Guidelines do not single out any industry or industry sector. Article IX indicates that the investment pool should be distributed according to asset allocation formulae but leaves the specific targets and ranges to the Implementation Strategy. Finally, Article X of the Guidelines sets forth principles to assess acceptable levels of risk tolerance in the investment pool strategy to control undue volatility. One specified approach to managing risk is to diversify the overall portfolio according to asset classes and investment styles, but again, the Guidelines do not identify industries or market sectors that must be used to implement that approach.

University of Utah Endowment Pool Investment Implementation Strategy

The Investment Implementation Strategy restates the principles the Trustees adopted in the Investment Guidelines, but adds details to those objectives in four major ways:¹⁶

First, the Investment implementation Strategy articulates an over-arching strategy to meet the objectives in the Guidelines through diversification. The strategy recognizes that investments with higher expected rates of return will outweigh the risk of short-term volatility (decreases and increases in value) over time. Therefore, the Strategy dictates that more than half of pool

¹⁴ The University has reduced that spending level in periods of severe market decline to ensure that the overall value of the investment pool does not decline.

¹⁵ The Guidelines provide that alternative investment funds, including those invested in natural resources, must be measured against appropriate benchmarks, including expected rates of return.

¹⁶ The Investment Implementation Strategy includes several other details and guidelines that are not directly relevant to this report.

assets should be invested in equities or equity-like securities, including assets such as real estate, natural resources, and infrastructure projects. To buffer short-term volatility in these investments, and to provide income stability, the fund also invests in fixed income and other diversified investments. Thus, the overall portfolio strategy adopts a traditional approach of balancing investments that have higher expected returns over time but higher risk of short-term fluctuations against investments with smaller expected returns but lower risk and volatility.

Second, the Investment Implementation Strategy adopts an asset allocation structure that further seeks to diversify the University's investments to buffer the portfolio from various sources of market volatility, including "economic, political, or social developments" that affect investment types in different ways. This approach is designed to stabilize the portfolio's returns over time and thereby to ensure the University a steadier stream of expendable income. An asset allocation approach sets target percentages of investments in various *categories* of investment type, defined in the Investment Implementation Strategy as global equity, global fixed income/credit, real assets, and "diversifying strategies."¹⁷ An asset allocation approach suggests that decisions on particular assets and asset categories should be based on their impact on the entire pool, and not on a stand-alone basis. The real assets category of investment specifies energy as one example of a natural resource investment (along with agriculture, timber, and commodities), and power generation as one example of infrastructure. It does not, however, specify the sources of energy or power production in which the University should invest.

Third, the Investment Implementation Strategy seeks to balance long-term investment goals in terms of the portfolio's rate of return against liquidity¹⁸ to ensure that cash is available to support ongoing University budgets and new programs. Therefore, the Strategy specifies a target that at least 50% of the portfolio should be in liquid investments, 25% in semi-liquid investments, and 25% in illiquid investments (investments that must be held for specified periods of time or that cannot be liquidated without a significant penalty).¹⁹ This aspect of the strategy may be significant to any recommendations made in this report because some investments may be more or less amenable to immediate or short-term divestment and reinvestment depending on their liquidity. Those limitations are not permanent, however, and will diminish as the terms of various existing investments expire.

Finally, the Investment Implementation Strategy identifies more specific performance objectives for the fund. The overall performance objective is a rate of return greater than the rate of inflation, as measured by the Consumer Price Index, plus annual spending (payout of returns to University budgets and other accounts) and administrative expenses. This rate of

¹⁷ The Strategy establishes targets and ranges for each of these four categories as follows: global equities (target 40%, range 30-50%); global fixed income/credit (target 20%, range 10-40%); real assets (target 20%, range 10-30%); diversifying strategies (target 20%; range 0-30%). Some of these categories also have more fine-tuned asset allocations within subcategories. Investment Implementation Strategy p.5.

¹⁸ Liquidity refers to the ease and cost at which an investment can be converted to cash.

¹⁹ Investment Implementation Strategy p.6.

return is designed to meet ongoing spending goals while preserving the purchasing power of the endowment over time.²⁰ In addition, the Strategy delineates guidelines and performance measures for different categories of investment manager retained by the University.²¹ Although most of those guidelines are specific to that category, two aspects of those performance measures and guidelines are particularly relevant to this analysis. First, the guidelines prohibit investment managers from obtaining excessive percentages of shares in individual companies, or to do so with “the intent of controlling management” in any company.²² This is relevant to arguments discussed elsewhere in this report that the University might more effectively influence the policies of fossil fuel companies by exercising the right to vote its shares in ways that influence corporate policy.²³ These limitations in the Strategy might have to be changed to implement such a strategy, and those changes would reduce the level of diversification of the portfolio. Second, two types of investment manager are directed to invest in industry sectors relevant to this analysis. Commodities managers are instructed to be “diversified with exposure to energy, metals, and agricultural commodities.” Again, however, the type of energy is not specified. Master Limited Partnerships (MLPs) are specifically directed at the “mid-stream energy infrastructure industry,” most of which transport oil, natural gas, and refined petroleum products. Should this report recommend any level of divestment from fossil fuels, those aspects of the guidelines might need to be modified.

Implementation of the University Guidelines and Strategy

Implementation Process

Under state law, the University’s Board of Trustees has ultimate fiduciary responsibility for ensuring that the University’s endowment portfolio is invested and managed prudently.²⁴ UPMIFA and R541, however, authorize the Trustees to delegate authority and responsibility to internal personnel and external consultants. Article V of the University’s Investment Guidelines delegate responsibility for implementing the Guidelines and Implementation Strategy to University personnel, an Investment Advisory Committee, and any outside investment advisors selected by those personnel after exercising due diligence to avoid conflicts of interest and to ensure that the University receives competent investment advice. Those individuals are responsible for abiding by all applicable requirements of UPMIFA, R541, and the Investment Guidelines and Investment Implementation Strategy. To ensure that those individuals can continue to abide by these requirements faithfully, any recommendations arising out of this

²⁰ In addition to this “primary benchmark,” the Strategy measures fund performance against national financial indexes and against the performance of similar funds at comparable peer institutions.

²¹ Investment Implementation Strategy pp. 7-10.

²² Investment Implementation Strategy p.9. No fund manager shall invest in more than 5% of the outstanding voting shares of a company, and public equity managers shall not invest in any one company in excess of 8% of the total value of that manager’s portfolio.

²³ In fact, public equity managers are instructed to “vote proxies and share tenders in a manner that is in the best interest of the Fund and consistent with the investment objectives contained herein,” rather than to influence other aspects of corporate policy.

²⁴ Investment Guidelines Art. V.1.a.

process should be effectuated through modifications to the Investment Guidelines and Implementation Strategy instructing them on guidelines governing any divestment and reinvestment strategy. The Board of Trustees must approve any such changes to the Investment Guidelines and Investment Implementation Strategy, and those changes must be approved by the Board of Higher Education.

The Investment Guidelines and the Investment Implementation Strategy further specify the composition and roles of each of these entities. The Investment Advisory Committee is comprised of six to ten members selected by the University President, which must include two members of the Board of Trustees and two independent investment management professionals. The committee is chaired by the Vice President for Administrative Services. That committee monitors the pool for compliance with the Guidelines and performance, and reports to the Board of Trustees. Two individuals within the University Administration are designated as Senior Investment Officers: The Vice President for Administrative Services/Chief Financial Officer, and the Associate Vice President/Chief Investment Officer (CIO) have overall operating responsibility for the pool. The Senior Investment Officers, in consultation with the Investment Advisory Committee, choose an Investment Consultant to advise the University on implementation and oversight of overall investment strategy, and a series of investment managers to manage various components of the portfolio.²⁵

The last time the Academic Senate considered this issue, it also proposed the formation of an additional advisory committee designed specifically to consider and provide guidance on ways to divest from fossil fuels and reinvest in renewable energy sources. That recommendation, however, has not been implemented.

The Investment Guidelines also specify a series of procedures to ensure that the substantive investment goals and performance objectives established by the Board of Trustees are met, and that management of the pool otherwise complies with legal requirements and sound investment practices. These include a Conflict of Interest policy (Article VI), a Performance Evaluation and Review Process (Article XI), procedures for internal audits and controls (Article XIV), reporting to the Board of Trustees and the Board of Higher Education (Article XV), and preparation and submission of the Annual Money Management Report as required by state law and R541 (Article XVI).

Current status of the endowment pool

The University currently manages an endowment pool of more than \$ 1 billion. Consistent with the above requirements and guidelines, the endowment is invested in diverse kinds of investments and in diverse economic sectors. Approximately half of the pool is invested in equity funds, including public equities (stocks that are sold on a public stock exchange), private equity (direct investment in companies that are not traded publicly), and hedged equity (long-term investments with offsetting shorter investments to reduce risk). Approximately a quarter

²⁵ More details regarding each of these delegations are specified in Article V of the Investment Guidelines.

of the fund is invested in fixed income sources such as bonds, and the remaining assets are invested in other ways to increase the diversity of the portfolio, including real assets such as natural resources. The overall investment pool is “rebalanced” periodically to ensure that investments remain within the targets in the asset allocation model.

For two reasons, it is extremely difficult to ascertain precisely what percentage of the pool is invested in fossil fuels, and that percentage necessarily varies slightly over time. First, the percentage of the endowment invested in fossil fuels depends in part on how that concept is defined. It clearly includes direct investments in fossil fuel extraction and production (which would be included in the “natural resources” portion of the real assets category of investments described above). However, it also logically includes investments in infrastructure projects such as oil and gas pipelines, investments in electric power production that rely on fossil fuels, industrial facilities that rely on fossil fuel production, etc. Defining what constitutes a fossil fuel investment is one key issue for the committee.

Second, the majority of the University’s investments are in independently pooled funds such as mutual funds that invest in public stock and bond markets or private pooled funds managed by independent investment managers. Information on energy investments provided by mutual funds varies by mutual fund manager and usually focuses on investments in traditional publicly traded oil and gas exploration and service companies. Private pooled funds are typically in strategies associated with hedge funds or broadly invested private equity and debt funds. Unless a private equity or debt fund is subject to specific screens designed to include or exclude specific types of investments (such as fossil fuels), it can be difficult to segment what percentage of those pools may be in fossil fuels. Hedge fund portfolios are actively traded throughout the year and may rotate in/out of oil and gas investments frequently.

Understanding these constraints, the University’s investment consultant estimates that approximately 6% to 9% of the endowment is invested in fossil fuels (broadly defined). Some of the University’s investments are in renewables and other non-fossil fuel energy sources.

Conclusion

The laws and policies governing investment of the University’s endowment pool require the University to invest the fund with the care an ordinarily prudent person would exercise in similar circumstances, *and* to consider the charitable purposes of the institution and the purposes of the fund, subject to individual donor intent. This requires the University to consider other established University purposes, including those related to climate change and sustainability, in determining how to meet its fiscal investment goals. This suggests that the University should modify its existing investment pool guidelines and implementation strategy to establish principles and approaches that further its established charitable purposes regarding climate change and sustainability, as well as its fiscal goals, in future endowment investment decisions.

Section 4 Summary of the history of the fossil fuel/green energy markets and prices, and current projections

Disclaimer

The subcommittee included a broad approach to diligence and viewpoints. Our goal is to effectively summarize relevant data (the past) and projections and opinions of industry experts (the future). We acknowledge that we as a committee are a group of individuals and have selected resources to cite that we thought were best. As such, several caveats we want to highlight are:

- As many are familiar, “Past performance is not an indicator of future results.”
- As a corollary, “Past energy usage is not an indicator of future energy usage.”
- While historical data is objective, the choice of what measures to use and groupings to make are human ones. We have done our best to disambiguate this.
- Future trend estimates and financial projections are subjective and rely on global events (political, economic, natural, pandemic) that cannot be predicted. We have done our best to synthesize several viewpoints as such.

1.1 Energy Usage: History

One of the main drivers of shifts in industry makeup and sector financial performance is changes in energy consumption, and consideration of the different sectors of energy use and energy production. Over centuries, human consumption of energy has allowed the global increase in individual human longevity, global interconnectivity, global transportation, and other features that are commonly considered to be an increase in the standard of living. The issue as to whether the standard of living is actually “better” is not the debate, but the inexorable rise in the use of energy both domestically and globally is discussed here.

The long-term history of energy production by humans shows the vast increase in energy consumption since the dawn of the Industrial revolution. This increased energy demand was met principally by coal, oil, and natural gas from 1850 to about 1950, and then we see the slow rise of other energy sources: hydroelectric, nuclear, solar, and wind. Only the past 20 years has wind and solar begun to make an impact; this has been due to developments in materials for both energy production and energy storage. It is only now that it is possible to begin to contemplate replacing a significant portion of the energy demand that has traditionally been met by fossil fuels.

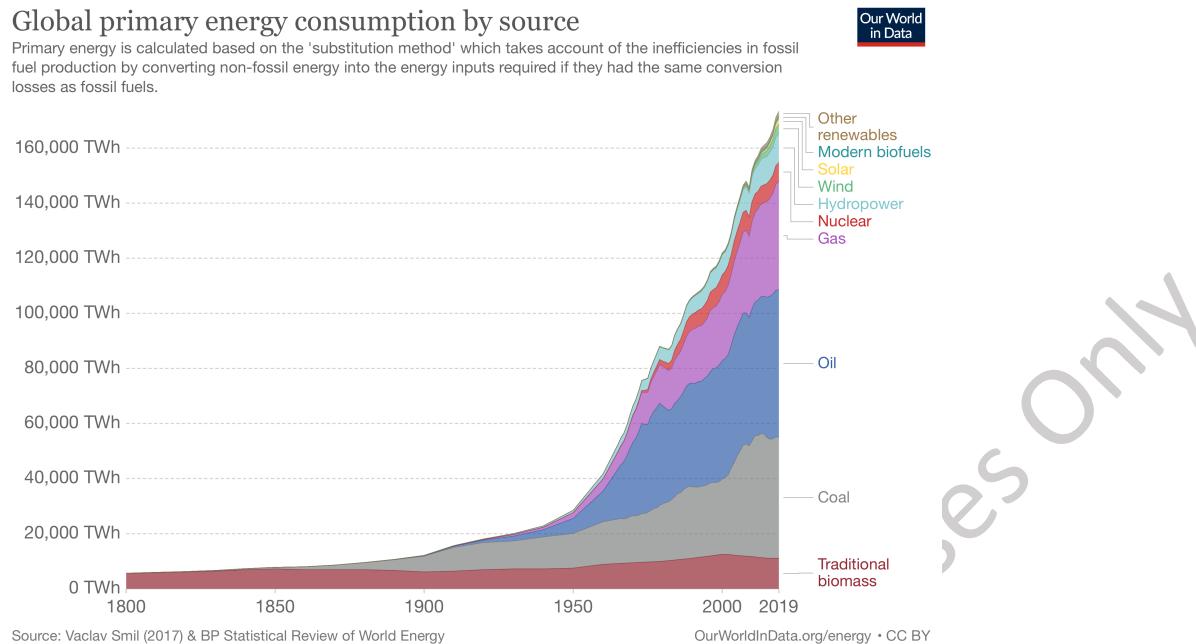
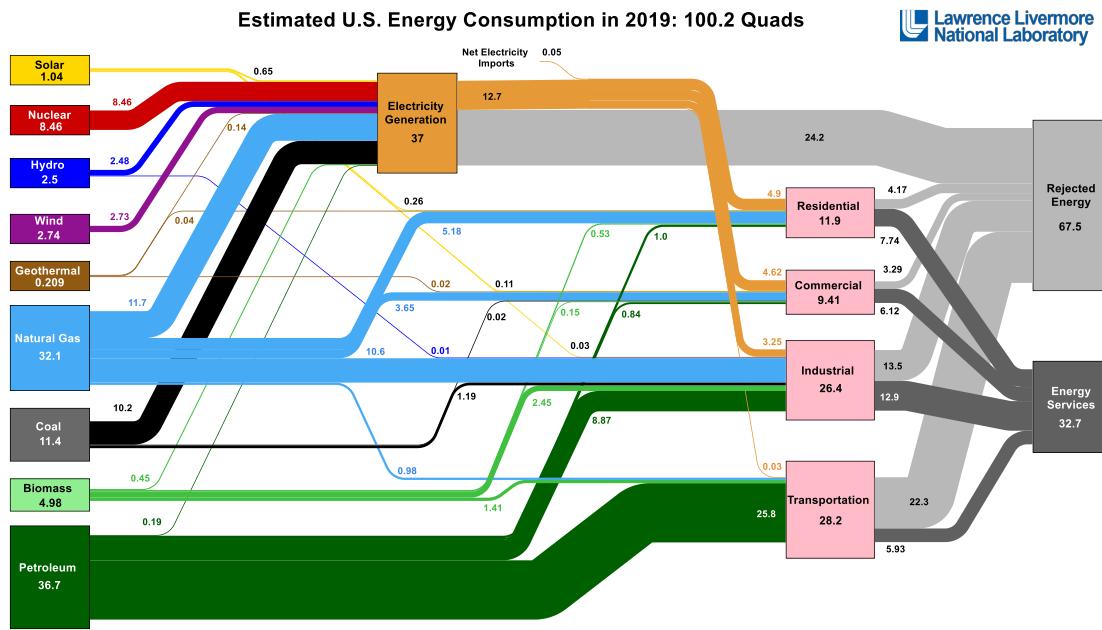


Figure 1. Global primary energy consumption by source. Current renewables (hydroelectric, solar, wind, other) make up less than 5 percent of total energy global energy consumption. Source: <https://ourworldindata.org/grapher/global-primary-energy>

Likewise, it is important to consider the sectors using energy resources. Heating, transportation, electricity and three principal uses in which energy use is not always directly transferable. The following figure shows the complexity of comparing energy production with energy sector use: most renewable energy (hydroelectric, solar, wind) is combined with nuclear energy and some fossil fuel (coal, natural gas) to produce electricity whose primary use is in the residential, commercial, and industrial sectors; almost all the transportation demands is met by fossil fuels, in particular the petroleum resource. Each energy resource is better suited for some applications than for others. For the case shown here, currently increasing the use of renewable energy resources for the transportation and heating sectors are major challenges, along with increasing efficiency (energy services compared to rejected energy) in the analysis below.



Source: LLNL March, 2020. Data is based on DOE/EIA MER (2019). If this information or a reproduction of it is used, credit must be given to the Lawrence Livermore National Laboratory and the Department of Energy, under whose auspices the work was performed. Distributed electricity represents only retail electricity sales and does not include self-generation. EIA reports distributed electricity sales as retail electricity sales less electricity sales to electric power plants. The efficiency of electricity production is calculated as the total retail electricity delivered divided by the primary energy input into electricity generation. End-use efficiency is estimated as 65% for the residential sector, 65% for the commercial sector, 21% for the transportation sector and 74% for the industrial sector, which was updated in 2017 to reflect DOE's analysis of manufacturing. Totals may not equal sum of components due to independent rounding. LLNL-MI-418527

Figure 2. Energy production by sector and energy consumption by end use, accounting for “lost” energy due to inefficiencies (“rejected energy”). Note the industrial and transport use is principally reliant on fossil fuels (coal, natural gas, petroleum).

Source: https://flowcharts.llnl.gov/content/assets/images/energy/us/Energy_US_2019.png

Modern global societies are built on a platform of energy developed over the past several hundred years. Modern US energy consumption is dominated by the transportation and industrial sectors, both of which currently rely primarily on fossil fuels as the energy source. Increased efficiency of production and transmission could result in large gains in energy reliance on fossil fuels.

1.2 Energy Usage: Projections

The Annual Energy Outlook 2020 (AEO2020) provided a review of energy projections in the US for the period from 2020 to 2050. This report is very timely for this discussion, although it was completed before the covid-19 pandemic caused significant disruption to the global economy. However, it still provides a useful reference for discussion.

AEO2020 shows overall energy production increasing from 2020 to 2050, but with some resources declining or remaining steady (coal, crude oil, petroleum, nuclear, hydroelectric) and only natural gas and renewables (wind, solar) increasing through this period. This is in large part because of the still extant problem of energy resource transfer from the petroleum and natural gas resource use in heating and transportation to renewable energy resources being able to shoulder that burden.

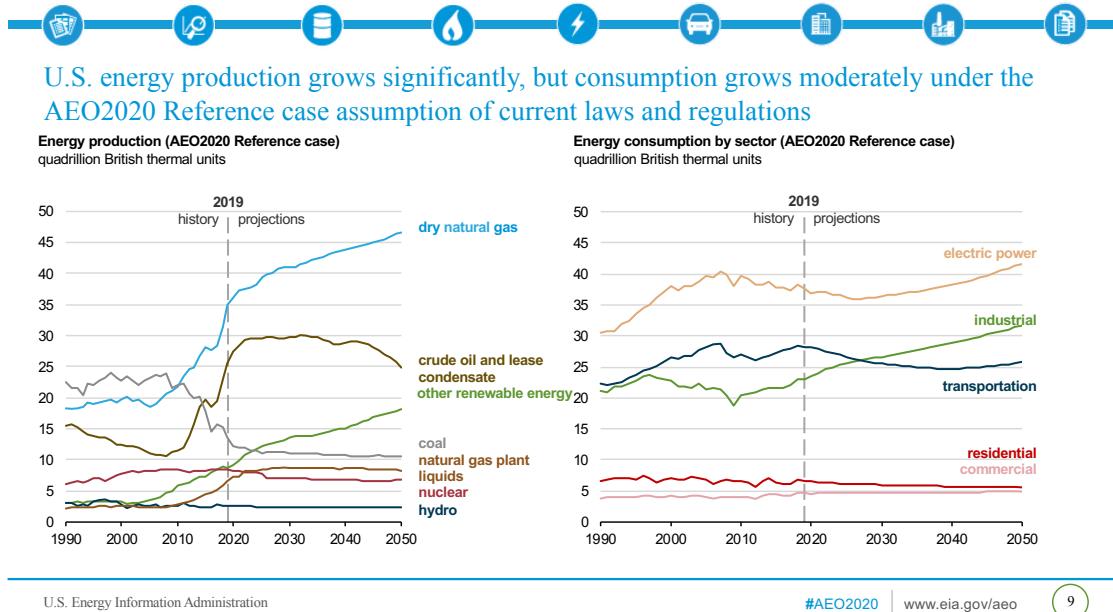


Figure 3. Projections of US energy production and consumption to 2050. Source: AEO2020

Projections of transportation sector market shares shows that, without major changes in the renewable storage problems, the transportation sector will still be largely reliant on fossil fuels (gasoline, diesel) for most of the next 3 decades.

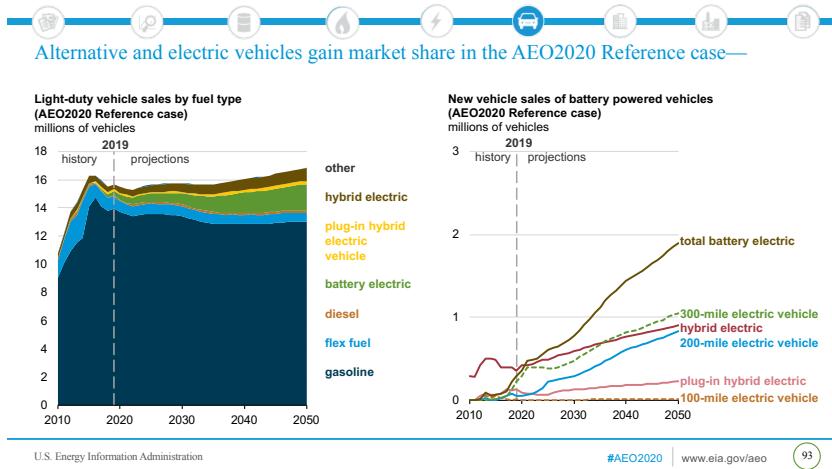


Figure 4. Projections of changes in transportation sector related to electric vehicles up to 2050. Projections show continued dominance of fossil fuels for transportation section. Source: AEO2020

AEO2020 shows projections for electricity production through 2050: total electricity production is projected to increase by 30% and although the proportion of electricity produced by fossil fuels declines, the absolute amount of energy remains approximately constant. The net increase in production is taken up almost entirely by renewable resources – wind and solar, with hydroelectric and geothermal making only small contributions to the total.

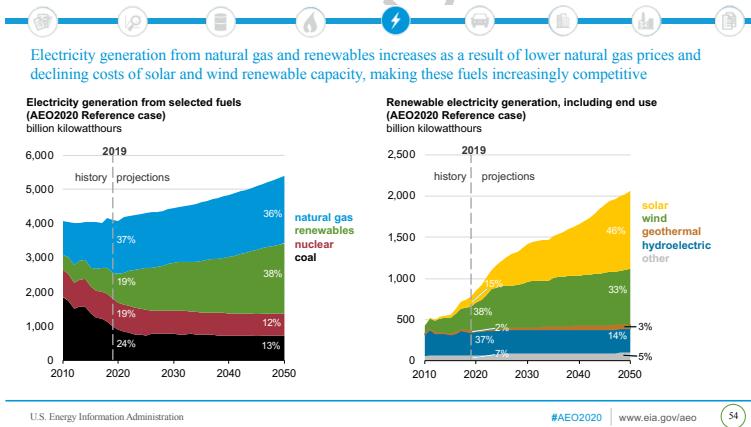


Figure 5. Projected energy sources for electricity production to 2050. Largest gains are in renewables (solar/wind) during this period. Source: AEO2020

2.1 Markets: History

Note: If you have not already done so, please refer to the Disclaimer at the top of this section (Section 2) before reading this subsection.

Endowment composition reminder

As seen in Section 3, the endowment portfolio is widely diversified and includes hundreds of comingled assets across many funds. As noted in that section, this group of assets is difficult to summarize effectively as its makeup is so multilayered and the weight of holdings shift frequently.

Equities: Past market performance of energy

Pre-COVID market performance of companies in the S&P 500 broken down by sector provides a useful visualization of this. Energy companies (including *both* those focused on fossil fuel and renewables) performed the worst of any sector. While there are many ways to slice historical results, this helps demonstrate the difference in broad-based sector trends in recent history.



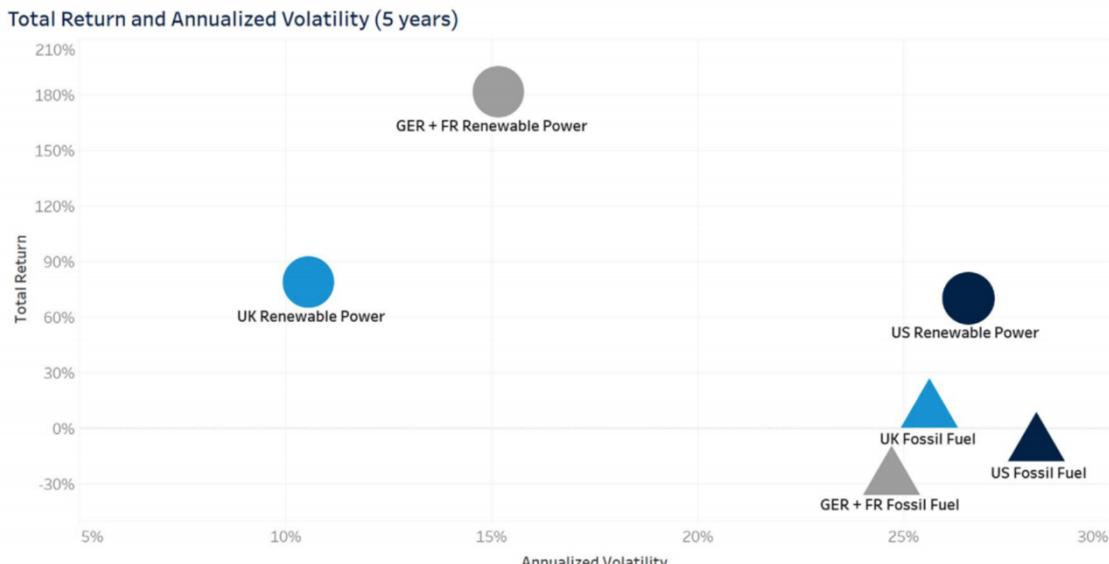
(Performance of the S&P 500 by sector, 2009-2019. FT and Bloomberg.) [Link](#)

Winners and losers

One important thing to call out here is that there are always winners in losing sectors and losers in winning sectors. For example, certain S&P 500 Consumer Distortionary companies have underperformed in this same time period, and certain Energy companies have outperformed. However, as noted above, the University is highly diversified across many sectors and assets; it does not pick individual assets. Thus, strategic management relies on selecting fund managers which take broad trends like this into account when building strategies and allocating University investment funds.

Equities: fossil fuel returns and volatility

Another interesting measure for comparison is volatility. A June 2020 study from the Imperial College Business School of London found that fossil fuel-related assets not only had lower returns over the past 5 years, but also had greater volatility. For comparison the study used renewable power companies as comparison. Not only renewable power outperform, it did so with lower volatility. While obviously there are many factors here and the metrics used are specific to this study, it nevertheless seems a useful representation.

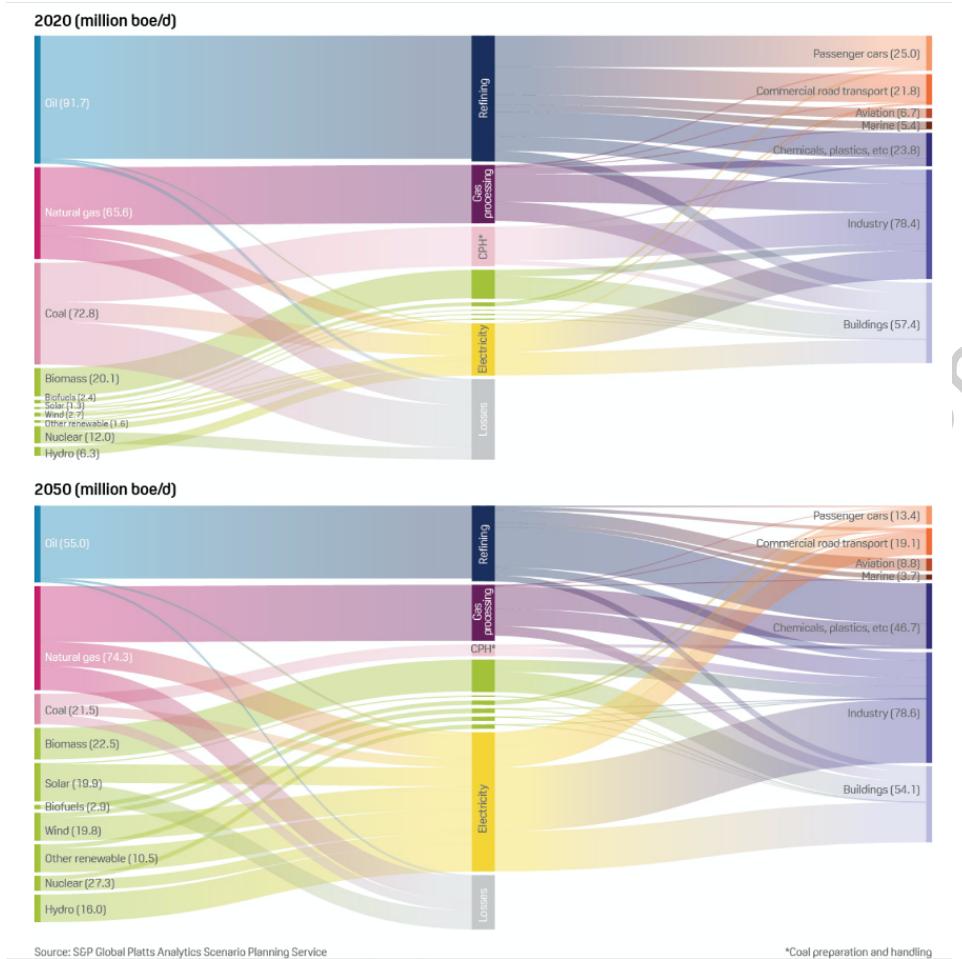


(Fossil fuel asset returns and volatility, past 5 years. ICBS.) [Link](#)

2.2 Markets: Projections

An obvious point of interest for those looking to improve their returns on investments is how the market will evolve in the future. This is precisely the million-dollar question that has stimulated the plethora of economic research and creation of predictive economic models. These models require an understanding of the market and its influences, which includes human behavior and global political decisions, much of which is often difficult to predict. Because of this, it is not possible to truly predict the performance of any economic market. Instead, we can gain a better perspective on the potential market trajectory by understanding how usage drives markets and current predictions based on global agreements that have already been made.

In the figure below, we see that if the world meets the targets of the Paris Climate Agreement, fossil fuels will shrink from about 77% of the global energy need to roughly half, with oil and coal being most notable in this decrease in demand while natural gas has a slight increase in demand. Alternatively, we see growing shares in all included renewable categories, with the most growth in solar, wind, nuclear, hydro, and other renewables.



Other global agreements, such as the Sustainable Development Goals (which were set in motion by the United Nations General Assembly in 2015 to be achieved by 2030), must also be taken into consideration. The table below shows the predicted demand of each type of fuel based in various scenarios on UN DESA data from IEA. In the Sustainable Development scenario, we see drastic declines in the demand for coal and oil, and slight declines in gas and solid biomass demand. On the other hand, we see the only triple digit growth coming from the renewables sector. In the scenario that countries only act upon current stated policies, we see a similar pattern of demand although not as drastic in all sectors.

Table II.1
Growth of world primary energy demand by fuel

Percentage

	Share of primary demand	Historical growth	Stated Policies Scenario		Sustainable Development Scenario	
	2018	2000–2018	2018–2030	2018–2040	2018–2030	2018–2040
Coal	23	65	1	-1	-36	-62
Oil	37	23	8	9	-11	-32
Gas	21	57	19	36	7	-3
Nuclear	7	5	13	28	26	62
Renewables	7	111	64	125	100	215
Solid biomass ^a	6	-3	-1	-12	-77	-88
Total	100	43	14	24	-4	-7
CO ₂ emissions (Gt) ^b		44	5	7	-24	-52
Fossil fuel share (end period)	81	81	77	74	72	58

Source: UN DESA, based on data from IEA (2019b).

^a Solid biomass includes its traditional use in three-stone fires and in improved cookstoves.

^b Gt = Gigatons.

2.3 Sources

AEO2020: Annual Energy Outlook 2020. US Energy Information Administration. US Department of Energy. <https://www.eia.gov/aoe>

Lawrence Livermore Laboratory:

https://flowcharts.llnl.gov/content/assets/images/energy/us/Energy_US_2019.png. Download 5 Jan 2021.

Our World in Data: <https://ourworldindata.org/grapher/global-primary-energy>. Download 5 Jan 2021.

S&P Global Analytics: <https://www.spglobal.com/platts/en/market-insights/latest-news/oil/062320-fossil-fuels-energy-mix-infographic-interactive>

UN DESA: https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/WESP2020_CH2.pdf

Section 5 Corporate Governance

Fundamental to investors' ability to influence the policies of firms they invest in is the concept of corporate governance. Absent good governance, investors essentially have no real influence on areas of interest—in this case the reduction in harm from fossil fuel production and concerns about environmental pollution.

This section provides an overview of how publicly traded and private companies and funds are governed and the ways in which investors can and cannot have their views get in front of decision-makers. We have summarized the Endowment's current activities in this area, and its current potential to influence in this area. Note that virtually no university endowments will ever directly invest in publicly traded companies (the U does not either), so the governance has to come from having the U inform the fund managers of the decisions it seeks and the fund managers have to then have enough influence over firms to get firms to consider and act on their favored policies.

Disclaimer: **There is no true consensus as of yet** on just how easy it is for investors, particularly institutional investors, to influence firms' policies toward fossil fuel production and use.

Also note: This section provides a summary of the counter-argument of divestment—with divestment there is no ability at all to use the Endowment's ownership to influence the activities of companies because obviously there is no ownership.

5.1 Background on Corporate Governance

We list several Published Papers or Working Papers investigating the ability of investors to influence firm's policies in general, and on environmental and social issues in particular. A large body of work has been done, and more is currently being done given the timeliness of the topic. For those that truly want to see it all, there is a 13-page Appendix V of an unreserved business working paper by Ellen Quigley, Emily Bugden, and Anthony Odgers: "Divestment: Advantages and Disadvantages for the University of Cambridge", which has an outstanding summary of the many decades of research on investor activism regarding environmental issues and climate change (including several of the papers summarized here). They summarized their findings as such:

"Neither divestment nor shareholder engagement has yet been successful in achieving material changes to fossil fuel companies' operations or spending. This is not to say that shareholder engagement will always be ineffective, and indeed there have been some recent positive indications as to its future potential, but on the basis of its historic evidence it would not appear to be a sufficient tactic on its own for the scale and speed of change required to decarbonise the fossil fuel sector (see Appendix V)." (pg. 13)

Ellen Quigley, Emily Bugden, and Anthony Odgers. Divestment: Advantages and Disadvantages for the University of Cambridge. Unreserved business Paper No. 20.09.21.SM6, October 2020. https://www.cam.ac.uk/system/files/sm6_divestment_report.pdf

While the Cambridge-authored paper concludes that neither divestment nor engagement has been successful thus far, that conclusion needs a little more nuance applied to it. As is indicated by the summary of the first academic paper listed below, for European fund managers and fossil-fuel companies, institutional investor ownership has been shown to improve environmental performance, and business model rethinking, for fossil fuel companies. Thus, to the extent that social norms toward addressing climate change risk in the US are rapidly changing among all parties to demand substantial action, several committee members believe that it is possible (but far from certain) that something could happen here. That is, it is possible that the voting power obtained from fund managers' ownership of significant amounts of equity in large fossil fuel companies can, in the future, be used to force changes in business model policies at these fossil-fuel companies similar to what has happened when motivated investors demanded action in Europe.

DRAFT FOR DISCUSSION PURPOSES ONLY (EXCEPT COMMITTEE CHARGE & MEMBERSHIP)

Below, we summarize what we felt were relevant additional papers in several categories related to corporate governance.

Institutional shareholder influence:

Area of Focus: Is there evidence that Institutional Investors, either in aggregate or as individual activists, can change firms' sustainability policies:

- *Alexander Dyck, Karl Lins, Lukas Roth, Hannes Wagner. Do institutional investors drive corporate social responsibility? International evidence, Journal of Financial Economics, Volume 131, Issue 3, March 2019, Pages 693-714*
 - o Across 41 countries, institutional ownership is positively associated with environmental and social (E&S) performance with additional tests suggesting this relation is causal. Institutions are motivated by both financial and social returns. Investors increase firms' E&S performance following shocks that reveal financial benefits to E&S improvements. In cross section, investors increase firms' E&S performance when they come from countries with a strong community belief in the importance of E&S issues, but not otherwise. US institutional investors have no meaningful impact on E&S scores, either in the US only or around the world. Pension plan holdings across the world, including from the US, are associated with higher E&S scores. As such, these institutional investors transplant their social norms regarding E&S issues around the world.
- *Davidson Heath, Daniele Macciocchi, Roni Michaely, Matthew C. Ringgenberg, Do Index Funds Monitor?, forthcoming in Review of Financial Studies, Available at SSRN: https://papers.ssrn.com/abstract_id=3259433.*
 - o The U's public company equity investments are, collectively, about 20% in index funds (including those both global and US in focus). A one sentence summary of the above paper is: Overall, our results provide uniform evidence that index funds do not act to improve corporate governance through their voice (vote or engagement). The paper notes that passively managed index funds now hold over 30% of U.S. equity fund assets; this shift raises fundamental questions about monitoring and governance. We show that, relative to active funds, index funds are less effective monitors: (i) they are less likely to vote against firm management on contentious governance issues; (ii) there is no evidence they engage effectively publicly or privately, and (iii) they lead to less board independence and worse pay-performance sensitivity at their portfolio companies. Overall, the rise of index funds is decreasing the alignment of incentives between beneficial owners and firm management and shifting control from investors to managers.
- *Bebchuk, Lucian A. and Hirst, Scott, Index Funds and the Future of Corporate Governance: Theory, Evidence, and Policy (December 2019). NBER Working Paper No. w26543, Available at SSRN: <https://ssrn.com/abstract=3504424>*
 - o This paper examines the role of index funds in corporate governance and comes to the same conclusion as the paper above. Overall it cites multiple ways in which they are uninvolved or under-involved – despite owning large stakes in these companies. The paper highlights that... “index fund managers have strong incentives to (i) underinvest in stewardship and (ii) defer excessively to the preferences and positions of corporate managers.”
- *Bellon, Aymeric, Does Private Equity Ownership Make Firms Cleaner? The Role Of Environmental Liability Risks (May 18, 2020). Available at SSRN: <https://ssrn.com/abstract=3604360>*
 - o Private Equity (PE) ownership leads to 50-70% reduction in two measures of pollution in oil and gas companies. PE firms are motivated to reduce regulatory risk and increase the likelihood of being able to sell the company, which is what motivates them to apply their ownership control to reduce polluting activities. It is worth noting that this effect requires sufficient ongoing pollution regulation. While this paper explores PE activities, not shareholder activities, it is a relevant insight relating to the U's private ownership of certain real assets.
 - o Note that Committee Member Karl Lins was the Discussant on this paper at the European Corporate Governance Institute “Sustainable Finance and Corporate Governance Conference” in October 2020. The data on Private Equity owned oil and gas pollution levels were quite detailed;

DRAFT FOR DISCUSSION PURPOSES ONLY (EXCEPT COMMITTEE CHARGE & MEMBERSHIP)

less flaring was observed, attributed to the need to not sell polluting assets at a discount when the fund life expires after 8-10 years and assets are to be sold.

- *Bebchuk, Lucian A. and Tallarita, Roberto, The Illusory Promise of Stakeholder Governance (February 26, 2020). Forthcoming, Cornell Law Review, December 2020, Available at SSRN: <https://ssrn.com/abstract=3544978>*
 - o This paper explores the increasingly popular term “stakeholderism” and discusses its pros and cons in theory. The authors argue that allowing non-shareholders to have governance input would not only conflict with shareholders in a business world built around shareholders, but also potentially harm stakeholders themselves in the long term. The main reasons for this are slowing decision-making down through greatly increasing the complexity of managements’ input and jobs overall, and misaligning management incentives. While this idea is yet to be regulated or implemented by businesses on national scales, it provides an interesting point of reflection on the state of the business landscape and the multifaceted nature of non-management influence on management teams, whether through shareholders or stakeholders.

Internal investment:

Area of Focus: Do internal CSR investments of companies affect change?

- *Hong, Harrison. The Sustainable Investing Proposition. NBER, No. 2, June 2019.*
 - o Summary by long-time ESG/CSR researcher Harrison Hong of whether a firm’s investments in CSR are expected to be value-enhancing or represent agency problems in which managers are spending such money for their own personal benefit at the expense of shareholders. Generally, Professor Hong finds that investors should not spend their energy on influencing firms’ CSR activities over his many research papers. Interestingly, in his final paragraph he states the world might now have changed. “Another important consideration is that climate-change risks will be more manifest in the future. As a result, sustainable investing might evolve from studying these coarse scores to modeling the exposure of firms to such risks, be it exposure to carbon or to natural disasters. In work with Weikai Li and Jiangmin Xu, I demonstrate the value of this alternative approach by studying whether prices of food stocks efficiently discount climate-change risks. In a world with greater regulatory scrutiny or greater climate change risks, a sustainable-investing approach that is robust to these concerns might deliver value to investors.”

Results of commitments to responsible investing:

Area of focus: Do public commitments by institutions to invest responsibly result in measurable ESG improvements over time?

- *Gibson, Rajna and Glossner, Simon and Krueger, Philipp and Matos, Pedro and Steffen, Tom, Responsible Institutional Investing Around the World (November 11, 2020). Swiss Finance Institute Research Paper No. 20-13, European Corporate Governance Institute – Finance Working Paper 712/2020, Available at SSRN: <https://ssrn.com/abstract=3525530>*
 - o This working paper has found that “institutions that publicly commit to responsible investing” by signing on to the UN’s Principles for Responsible Investing (UNPRI) do improve the ESG scores of their portfolios. However, this effect was not demonstrated among US institutions. Institutions that only partially implemented their improvements actually got worse on ESG scores (the paper describes this as a result of “greenwashing”). The paper also finds that responsible investing does not improve returns, but does mitigate risks.

Negative screening and returns:

Area of Focus: Expected or realized returns from negative screening (not owning stocks deemed to be irresponsible based on some particular definition); negative screening is essentially the same as divesting from the irresponsible (fossil fuel, in our case) stocks as the result is the endowment doesn’t own them afterward.

- *Harrison Hong, Marcin Kacperczyk. The price of sin: the effects of social norms on markets. Journal of Financial Economics, 93 (2007), pp. 15-36*

- o “Sin stocks” which are avoided by institutions such as pension plans or those with a responsible investing pledge. In contrast with otherwise comparable firms they receive less attention from within the industry, and have higher expected returns as a result of neglect by these institutions.

5.2 Types of Ownership the University Has

Control as a Public Company Investor (Minority-Passive Ownership)

- Overall, shareholders of all public companies (including those fossil fuel-related) have various rights which allow them some level of influence over the company's activities. These include:
 - o Electing board members who are then responsible for choosing the CEO and management.
 - o The ability to participate in shareholder voting on certain decisions requiring shareholder approval, like changes to number of shares offered, mergers and acquisitions, etc.
 - o Voicing concerns in shareholder meetings.
 - o The ability to “vote with our dollar” and sell/buy more stock to apply pressure on management.
 - o The right to take legal action against management if we believe there has been wrongdoing.
- These rights and others allow influence on the company's activities from within.
- The U has approximately 20% of its total endowment invested in equity index funds.
- HOWEVER, the research above clearly shows that passively managed funds—that is, those that index and simply hold a pro-rata share of some set of companies that meet a benchmark, such as the S&P500, do not push for better governance at the companies in the index and thus are unlikely to be able to push for more sustainable practices.
- The U has approximately 10% of its total endowment invested in actively-managed equity mutual funds. For these funds, the manager(s) of the funds can potentially engage in requesting governance and/or sustainability-related policies more easily as they are selecting individual stocks to invest in and have an interest in improving the policies of firms they choose to invest in. The research above, particularly the paper by Alexander Dyck, Karl Lins, Lukas Roth, Hannes Wagner, shows that engaged institutional investors (those that are active, not passive) can sometimes influence firms' sustainability-related choices, even those in the fossil fuel industry.

Control as a Limited Partner (Minority-Passive Ownership)

- Private investment funds with fossil fuel-related holdings in which the U might invest as a limited partner do not provide rights on voting/influencing to their limited partner investors. Furthermore, these funds are often governed where the general partners usually do not allow limited partner investors to change their plans because they are multi-year lockup agreements.

Opinion on Change in Control (Assuming Divestment)

If the U chooses to divest from any company (including those fossil fuel-related) it may no longer have these kinds of leverage to be a voice for change inside the org as shareholders. In the 10-year plan at the end of this report, we have included several suggestions for concrete actions that could be taken to make better use of our influence where we remain invested in fossil fuel-related assets.

5.3 Actions the University's Managers Currently Take

As part of the Real Asset category of the Endowment's investments, the manager of a Fund of Funds investment that selects certain private investments in both real estate and energy, Hamilton Lane Partners, has been a signatory to the UN's Principles for Responsible Investing (UNPRI) since 2008 and touts this prominently on its website. Evidence in the papers by Raina Gibson, Simon Glossner, Phillip Krueger, Pedro Matos, and Tom Steffen

and by Alexander Dyck, Karl Lins, Lukas Roth, Hannes Wagner shows that institutional investors that publicly commit to the UNPRI do improve the ESG scores of their portfolios.

5.4 Potential Corporate Governance Actions that the University, through its Endowment Fund Managers, Could Potentially Take

As noted above, equity investments undertaken by the Fund Managers who invest the Endowment can be made either as actively managed (active) investments or as passive Index type investments. Fund managers of both active and passive management styles have the potential to vote the stakes they hold on behalf of their clients (the U's Endowment, for example) in ways that address climate change. So far the evidence on passive funds indicates that they overwhelmingly side with a given company's management on shareholder proposals of all types. But there are likely to be passive Index funds out there now, or forming soon, that will make a core specialty of theirs to vote in climate-friendly ways the stakes they hold. This is so because of the overwhelming interest in investors wanting to use finance, and the ownership of the equity of publicly traded companies in particular, the pressure reluctant company managers to change climate policies at their firms. And certainly there are already actively managed funds, as well as core institutional investors themselves (such as the California pension fund CalPERS, among many others), that have committed to use their equity stakes to push managers in the direction of climate change action.

Should the U Endowment not divest from fossil fuel companies but instead try to pressure them to change one possible scenario of how meaningful (or at least initial) change can be possible can be shown by an anecdotal "mini-case" example for ExxonMobil, long known as one of the most recalcitrant fossil fuel producers when it comes to implementing climate change policies. (Recall that by divesting there is no possible way to have any right to influence ExxonMobil policies). The overview is this: The U could choose to place its Endowment fund allocations to public equities, both those passively managed and those actively managed, with Fund Managers who have publicly committed to use their voting power and influence to change firms' climate policies. Similarly, the U's Endowment itself could sign on as a signatory to any one (or more) of several umbrella groups that seek to use the shares they hold to engage in climate-change-related activism. One such group is the Climate Action 100+ organization. Another is the UN PRI as mentioned already.

The example of ExxonMobil during the year 2020 is illustrative. Consistent pressure from Climate Action 100+ as well as large holders of ExxonMobil such as the New York State Common Retirement Fund were met with an open letter published as detailed below:

Summary of article “Addressing shareholder engagement and climate change in advance of our annual meeting” 05/20/2020 <https://energyfactor.exxonmobil.com/insights/partners/annual-shareholder-meeting-address/>

This was a statement posted to a public website put out by the "Energy Factor" public relations and information online magazine published regularly by ExxonMobil. It can be seen as a pre-meeting summary of what was covered. The statement points out that among other challenges the company is addressing in addition to COVID-19, it is still committed to addressing climate risk. It states that its approach to climate change and shareholder engagement were misrepresented by the Church of England and New York State Common Retirement Fund on both topics.

The statement points out Exxon's important role in both meeting global energy demand and addressing risks of climate change. It highlights the company's public "Energy & Carbon Summary" which covers risks to its business in case of the 2°C scenario, Paris agreement, and storms and other climate-related events. Part of this report includes R&D efforts by the company on "...work on advanced biofuels, lower-emission manufacturing and carbon capture." It highlights their "efforts to achieve a 15-percent reduction in methane emissions and a 25-percent reduction in

flaring by the end of this year versus 2016 levels." They also expanded the report to include "...disclosure of the Board's oversight framework and process, including the roles of our Board committees, as they apply to climate-related risk."

The company states it has been growing shareholder engagement as part of this for 5 years. In 2019 it had 85+ meetings with investors and other stakeholders, and 20+ engagements with Climate Action 100 and others. Another outcome was the expanded role of the company's Lead Director in oversight, as well as the board's, on topics including climate change. They also added, "...a new provision for shareholders to call special meetings, and enhanced disclosures on issues of importance, including risks related to climate change and oversight of lobbying and political contributions."

Related outcomes

A half year later, an article in the Wall Street Journal reported on climate-policy changes that had been made at ExxonMobil. While not direct causation, this would seem to demonstrate acknowledgement and material change in response to issues covered in the above summarized meeting.

Summary of "Exxon Promises to Cut Greenhouse-Gas Emissions, End Flaring by 2030" 12/14/2020 <https://www.wsj.com/articles/exxon-promises-to-cut-greenhouse-gas-emissions-end-flaring-by-2030-11607957820>

The article summarizes recent actions and commitments to future action by Exxon. The company pledged to reduce emissions from production by 15-20% overall in the next 5 years, and cut routine methane flaring in response to "...pressure from activists and investors to lower its carbon footprint." However, these cuts are what is produced by the company's operations, and does not include emissions from its products, like gas and other fuel. It did say it would start disclosing that product data next year.

The targets are below those of European gas and oil companies to reach net-zero, which "Mr. Wood has previously called a 'beauty competition.'" The company pointed out that its plans were in line with the Paris climate accord that President Trump withdrew the U.S. from. Exxon affirmed it would continue to "factor environmental performance into executive compensation and support putting a price on carbon."

The company didn't signal any new investments in clean energy. It didn't set goals for reducing emissions from its products, as it has no control over those. It noted that "[product emissions] is going to be a function of how society decides to reduce emissions across the energy system." A director at sustainability nonprofit Ceres thought the targets weren't significant enough. "Overall this is underwhelming and fails to address ExxonMobil's main source of risk—its product emissions. Put another way, if you were worried about Exxon's exposure to climate risk before this announcement, you are just as worried now."

Takeaways

The actions summarized here would seem to demonstrate the company's willingness to address these topics, and a change in that response based on shareholder engagement. However, many of these items are part of ongoing strategies at the company, and we cannot know if and by how much each action was affected by engagement. That said, they are improvements, and demonstrate at least a willingness to listen to and consider concerns of shareholders. It will be interesting to watch how this engagement evolves this year with the release of data around emissions generated by its products, not just its operations.

Section 6 Highlights from Other Institutions

The purpose of this section is to provide insights into the efforts of other institutions regarding divestment of endowment funds from fossil fuels and reinvestment of endowment funds into other sectors. The subcommittee for this section focused research efforts on peer institutions and investigated the following groups in which the University of Utah holds membership.

- PAC-12, with a focus on public institutions
- Association of American Universities (AAU)
- Utah State Higher Education (USHE)
- University Climate Change Coalition (UC3)

This section will summarize the subcommittee findings related to both fossil fuel divestment actions and positive sustainability investment/reinvestment efforts.

Fossil Fuel Divestment

The subcommittee evaluated the peer groups listed above for both full and partial fossil fuel divestment. The table below shows how many schools have some form of endowment divestment in each group as of March 2021.

Group	# with some fossil fuel divestment/total #
PAC-12	8/12
AAU	20/65
USHE	0/15
UC3	10/22

In conducting this research, the subcommittee learned that there is a wide spectrum of actions that could be classified as “divestment” by peer institutions. For example, Oregon State University trustees approved an amendment to the Public University Fund Investment Policy that calls on the fund to divest its current intermediate and long-term assets in fossil fuel-related investment securities and restrict future investment of Public University Fund assets in fossil fuel-related securities. However, OSU’s vote to divest does *not* apply to the \$500 million endowment managed by the OSU Foundation. A similar situation exists in the University of California system where the UC system’s portfolio has been fully divested from fossil fuels, but individual campus endowments have not. Arizona State University had no official vote to divest but uses BlackRock as their fund manager. BlackRock has pledged no further investment in coal and committed to begin exiting current investments in any companies that generate more than a quarter of their revenue from coal production. Several the schools included on this list looked into divestment and decided not to divest, and others have not officially taken up an examination of the issue.

Moreover, the motivations for divestment actions are also diverse and institution specific. The Chief Investment Officer at the University of California told subcommittee members that the UC decision to divest was entirely fiscal and not driven by social or moral considerations.

Numerous other schools cite the ethical considerations associated with climate change as a factor in divestment.

Ultimately, the subcommittee's research indicates that divestment actions and motivations vary widely across the University of Utah's peer institutions. While the research does not reveal a common path regarding endowment fossil fuel investing, it does suggest that the particular characteristics and values of a given institution play a significant role in determining what divestment action (if any) a school will take and why.

Positive Sustainability Investing

Collecting information on pro-sustainability investments by peers was more difficult. Often referred to as "positive" investment or reinvestment, these actions include designating a specific portion of endowment monies toward investments that exclude fossil fuels, have other Socially Responsible Investment (SRI) or Environmental, Social, and Governance (ESG) screens, and/or promote pro-sustainability efforts like renewable energy or community investing. The University of Utah currently has a small portion of the endowment invested through TIAA CREF Core Impact BOND and TIAA CREF Social Choice Low Carbon Equity, and this option is available to donors who would like a pro-sustainability investment option.

Sustainability Tracking Assessment and Rating System ([STARS](#)) offers the following definition of 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.

An evaluation of STARS reports shows that many of the PAC-12 and UC3 peer institutions have some endowment funds invested in SRI/ESG, have official statements or guidelines related to socially-responsible investing, and/or utilize formal committees to advise on the topic. Of the more than 420+ higher education institutions with a current STARS rating, 117 currently indicate some form of positive sustainability investing in their endowments. As with fossil fuel divestment, pro-sustainability investing takes many different forms at different institutions. For example, both Arizona State University and the University of California system have made commitments to invest a specific amount of their funds in renewable energy. The University of New Hampshire moved to direct all new endowment gifts into SRI/ESG vehicles and also invests a portion of its endowment in a local CDFI.

The Intentional Endowments Network provides information on higher education investments in SRI/ESG funds. Their most recent summary report finds that “A growing body of evidence from academics and practitioners shows that sustainable investing strategies, in general, perform as well or better than traditional approaches” (Intentional Endowments Institute, 2020) and offers examples from peer institutions including Arizona State University and University of California.

Shareholder Engagement

Of the 430 STARS rated institutions, 63 reported engaging in some sort of pro-sustainability proxy voting and 29 reported that they filed/co-filed pro-sustainability shareholder resolutions.

STARS defines pro-sustainability investor engagement in the following way:

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.

Section 7 Feedback from U of U Community

This section reports on feedback from the University of Utah community about possibilities related to divestment from fossil fuels and reinvestment of the University's endowment into positive sustainability investments. The Town Hall subcommittee collected feedback from U of U community via open comments at series of virtual Town Halls and through a written feedback form from September to December 2020. The subcommittee has collected additional feedback from the U of U community on the ad hoc committee's draft recommendations via a March 2021 Town Hall and via conversation with and written feedback from central administration, which resulted in modifications to the draft recommendations included in section 9 of this draft report. Feedback from the U of U community on this draft report will be solicited via a written comment form open between March 22-April 5, 2021.²⁶ The feedback and questions submitted to that form will be addressed at the April 2021 Town Hall and will incorporated into the final report that is due to the Academic Senate in April 2021.

Feedback from the U of U community is only one source of data for the recommendations made by the ad hoc committee in this report. Additionally, while this section reports on the feedback collected via the Town Hall and written feedback processes, we have received feedback from central administration, and there are existing joint resolutions and petitions that provide another measure of campus feedback about divestment/reinvestment.²⁷

Overall, the majority of feedback from the U of U campus community is in support of divestment/reinvestment. Feedback from those in support, those opposed, and those not expressing an explicit stance raised important issues that have contributed to the development of the ad hoc committees.

In the remainder of this section, we will describe the Town Hall sessions, present a thematic analysis of the feedback, and conclude with a discussion of the implications of the feedback.

Town Hall Sessions & Other Feedback Opportunities

The ad hoc committee's charge from the Academic Senate called for the committee to "host campus-wide information panels and discussions at least once a month, which shall be open to the campus community." We chose to do so via a series of Town Halls—including both information sessions and open comment sessions—directed to the University of Utah campus community, which we define as current faculty, staff, students, administrators, and trustees.²⁸ During Fall 2020 semester, we held monthly virtual Town Hall sessions,²⁹ which were advertised widely to the full campus community through venues such as: @theU, council of academic deans, ASUU, GCSC, staff council, and individual departments and units represented by ad hoc committee members.

²⁶ <https://forms.gle/DVWPBgn2Sc1EBvWy8>

²⁷ This includes: 1) a joint resolution adopted by the ASUU on March 2020 and a staff council resolution from March 2020 in support of full divestment from fossil fuels and reinvestment into renewable energy technology, both of which contributed to the creation of this ad hoc committee; 2) a currently circulating petition that has over 600 signatures (as of March 12, 2021) from alumni, students, staff, concerned community members, and faculty in support of this statement: "For the sake of our planet and our community, we are urging the leaders at the University of Utah to divest its roughly \$1.1-billion endowment from fossil fuels completely and reinvest into renewable energy, socially responsible areas, and community projects." When counting only students, faculty, and staff (which align with our definition of the U of U campus community) the number of signatures is 429.

²⁸ We considered alumni and donors outside the scope of the campus community. Some alumni and donors, however, are current faculty, staff, students, administrators, and trustees.

²⁹ The Town Halls were conducted virtually due to the ongoing COVID-19 pandemic.

- **August 2020 Town Hall-Information Session**
 - Purpose: inform campus community about the committee, its charge, and plans for collecting feedback; take questions
 - Format: presentation followed by open Q&A period
 - Content: 49 participants including members of the ad hoc committee raised questions along three themes: prior divestment efforts at the U, concerns about involvement of U stakeholders related to fossil fuels, clarification of and suggestions on the committee's process, and suggested solutions to divestment/reinvestment.
- **September, November, and December 2020 Town Halls-Open Comment³⁰**
 - Purpose: take open comments from the campus community about divestment and reinvestment
 - Format: brief presentation followed by 2-minute open comments from participants
 - Participants: There were 69 attendees in September, 55 attendees in November, and 37 attendees in December, including faculty, staff, students, administrators, and alumni.
 - Content: Open comments from participants addressed a range of topics that will be addressed in the analysis below.

In Spring 2021 semester, we have continued to offer monthly Town Hall sessions for the U of U campus community with the dual purpose of: 1) presenting on the ad hoc committee's research and 2) giving the U of U community an opportunity to give feedback on the ad hoc committee's draft report.

- **January & February 2021 Town Halls- Information Sessions**
 - Purpose: inform the campus community about the committee's research and in-process report sections; take questions
 - Format: presentation followed by Q&A
 - Participants: There were 36 participants in January and 34 participants in February.
 - Content: Questions addressed reinvestment, shareholder activism, and time frame for divestment. These questions informed the development of draft recommendations.
- **March 2021 Town Hall- Feedback Session**
 - Purpose: present ad hoc committee's draft recommendations and take feedback/questions from the campus community
 - Format: presentation followed by Q&A
 - Participants: There were 49 participants.
 - Content: Questions addressed
- **April 2021 Town Hall- Forthcoming**
 - Purpose: present ad hoc committee's draft report and take feedback/questions from the campus community
 - Format: presentation with Q&A
 - Participants: TBD
 - Content: TBD

Questions asked and feedback shared at the January, February, and March informed the draft report and recommendations. We will incorporate the feedback from the April Town Hall in a feedback summary³¹ appendix that will respond to thematic categories of feedback and indicate how feedback contributed to revisions in the final report.

³⁰ Note: the October 2020 Town Hall was cancelled due to a Zoom Bomb incident.

³¹ A comment summary document compiles open comments into themes and responds to each theme.

DRAFT FOR DISCUSSION PURPOSES ONLY (EXCEPT COMMITTEE CHARGE & MEMBERSHIP)

In addition to Town Halls, we also provided a process for members of the University of Utah campus community to submit written feedback. Written feedback had two phases.

- **Fall 2020**
 - Purpose: to take written comments from the campus community about divestment and reinvestment
 - Format: Google form³² with open ended questions open from September 21 to December 22, 2020³³
 - Content: We received 34 comments from members of the U of U campus community on a range of topics that will be addressed in the analysis below.
- **Spring 2021**
 - Purpose: to take written comments from the campus community in response to the ad hoc committee's draft report
 - Format: Google form with open ended questions open from March 22 to April 5, 2021³⁴

Analysis of U of U Feedback

In order to process the comments we received from the Fall 2020 Town Halls and written comment form, we conducted a qualitative thematic analysis.³⁵ This form of analysis includes some counting of the frequency of comments in each theme but is not a quantitative statistical analysis. As a qualitative analysis, the focus was on categorizing comments into a series of themes that would help the ad hoc committee understand the feedback offered by members of the U of U campus community who chose to be involved in the process, and to help us consider all relevant issues in an appropriate way. The themes presented here emerged from analysis of comments performed by an expert in qualitative analysis/public participation in environmental decision-making.

Data. In total, we received 73 comments (open or written) from 50 unique commenters.

	September	November	December	Written	TOTAL
Attendees	69	55	37	N/A	161³⁶
Open Comments	17	13	9	34	73
Unique Commenters	15	9	6	32	50³⁷

In addition to analysis of the themes that emerged from comments, we tracked each participant's role at the University as well as their stances on whether the U should or should not divest/reinvest. The Town Hall/Written Comment did not explicitly ask for commenters to take a stance. Opposition/support were noted only when the comment included specific language indicating support or opposition, but there were also comments that raised questions, addressed process, and did not make an explicit statement in support or opposition. While our data does suggest that there is more support for divestment/reinvestment by participants, these numbers may be under-representative, are not

³² See: <https://forms.gle/g75yoABNygsXQRKt6>

³³ These dates were chosen to correspond with our first open comment Town Hall on September 21 and our final open comment Town Hall on December 21, 2020.

³⁴ These dates were chosen to correspond with the release of the draft report on March 22, 2018 and to allow time before the April 12, 2021 Town Hall session for analysis of comments.

³⁵ The August 21, 2020 Information session is not included as it was not an open comment meeting. Spring 2021 Comments will be included in the Final Report as an Appendix.

³⁶ Some participants attended more than one Town Hall, so this does not represent unique participants. Ad hoc committee members are included in the total.

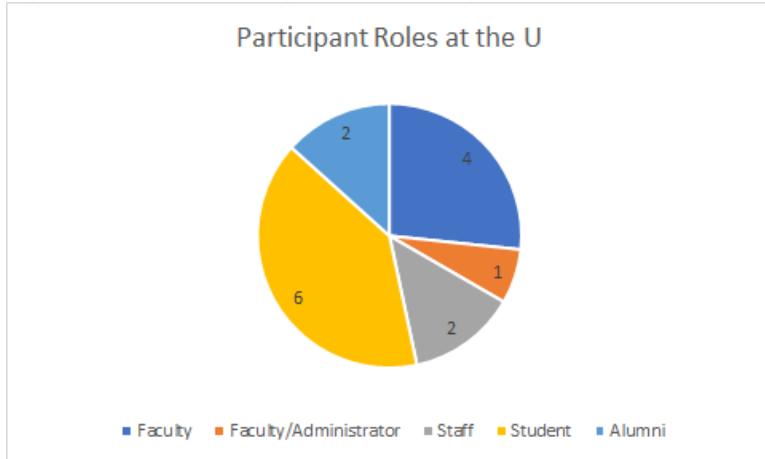
³⁷ There were several repeat commenters who commented in more than one venue. This number counts each commenter only once, hence it is not the sum of the unique commenters from each venue.

statistically representative of the U community's public opinion about divestment/reinvestment, and are only one source of evidence for the larger findings of our qualitative analysis of feedback.

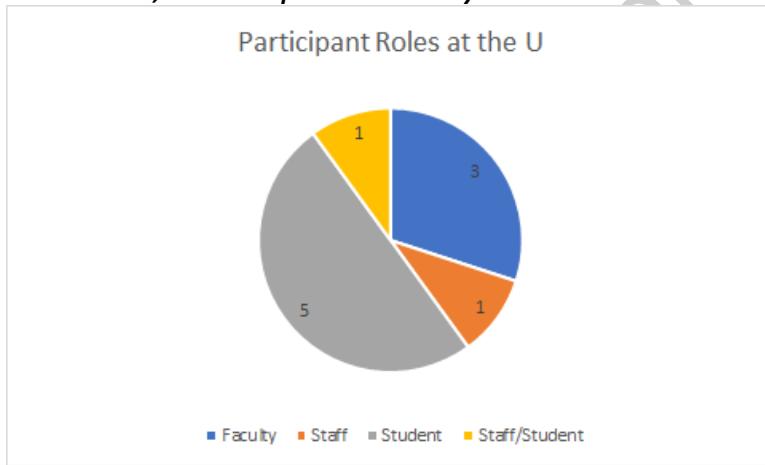
Open Comments from Town Hall meetings

In total, we received 39 open comments by unique 30 commenters across all three Town Halls.

September 21, 2020: 17 open comments by 15 commenters³⁸

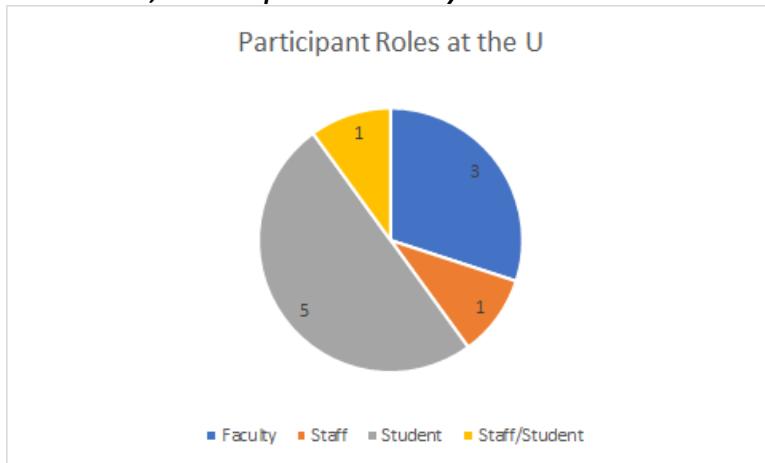


November 30, 2020: 13 open comments by 9 commenters

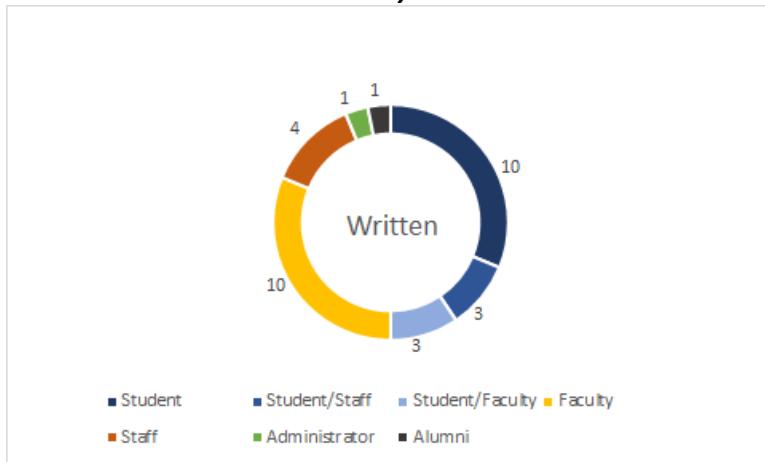


³⁸ We allowed speakers to make a second comment if there was time.

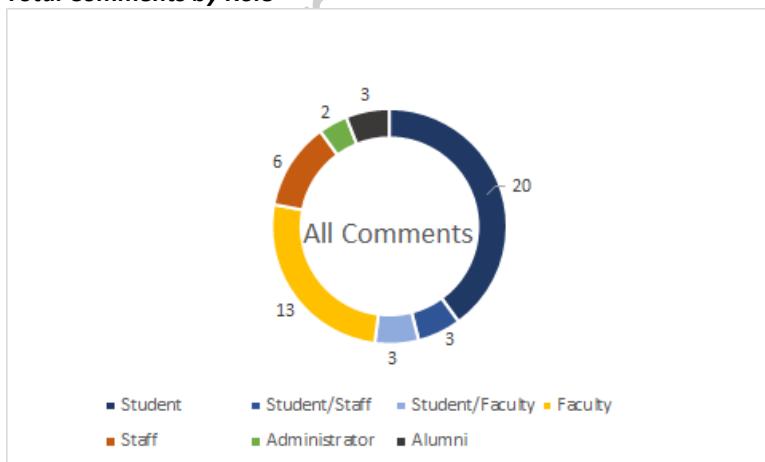
December 21, 2020: 9 open comments by 6 commenters



Written Comments- 34 comments by 32 commenters.³⁹



Total Comments by Role



³⁹ There was one test comment that was removed from the set.

Themes & Codebook

Our analysis⁴⁰ resulted in 9 themes, as represented in the codebook below (see Figure 2). The first 7 themes represent topics that came up in comments about divestment and reinvestment. The final 2 themes represent comments that were directed to the ad hoc committee in terms of process or questions directly addressed to the committee for further investigation.⁴¹ The first seven themes could be further subdivided by the tone of the comment in relation to whether the commenter expressed a stance on divestment/reinvestment.

Code	Tone [regarding divestment and reinvestment]	Definition	Subthemes
Economic	<ul style="list-style-type: none"> • Support • Not Explicit • Opposed 	Arguments about economic factors related to divestment & reinvestment	<ul style="list-style-type: none"> • Financial performance of fossil fuels, renewables, and energy companies (positive and negative) • Endowment management based on returns • Retirement fund divestment has bigger impact, can be done along with endowment • How to define fossil fuels for divestment • Investment in fossil fuels is small percentage of endowment
Environment & Health	<ul style="list-style-type: none"> • Support • Not Explicit • Opposed 	Arguments about the environmental & health factors related to fossil fuels, and divestment/reinvestment, including Climate Change, Air Pollution, etc.	<ul style="list-style-type: none"> • Urgency and Impacts of Climate Change & GHG emissions • Planetary & Human Health under threat • Air Pollution Impacts • Investment in Fossil Fuels is damaging to people/environment
Institutional Consequences	<ul style="list-style-type: none"> • Support • Neutral • Opposed 	Arguments about the consequences of divestment & reinvestment for the U of U community.	<ul style="list-style-type: none"> • Impacts to Research (positive and negative) • Impacts to Funding (positive and negative) • Donors & Alumni support (positive and negative)

⁴⁰ We used inductive analysis of emergent themes. We began with open coding, which involves closely reading open comment transcripts and written comments to develop a list of themes. After developing an initial list of themes, we reviewed the themes from the notes taken at each Town Hall meeting by two Sustainability office staff members. This process resulted in a set of themes, or a codebook. We then re-coded all of the open comments and written comments using this codebook. This resulted in both a rough count of the comments made in each theme as well as the set of comments for each theme, which we describe below. Lindlof, Thomas R., and Bryan C. Taylor. *Qualitative Communication Research Methods*. Fourth edition. Los Angeles: SAGE Publications, 2017.

⁴¹ As needed, we responded to the process comments and questions/suggestions either through contact with the individual, uploading documents to the committee's website, discussion among the ad hoc committee, and/or revision to the Town Hall presentation.

			<ul style="list-style-type: none"> • Recruitment (positive and negative) • Job Placement (negative) • Relationships with Energy Companies (negative) • U's GHG emissions (negative) • Unintended Consequences (positive and negative)
Institutional Mission	<ul style="list-style-type: none"> • Support • Neutral • Opposed 	Arguments about how divestment & reinvestment is or is not aligned with the U's mission, leadership, commitments, and initiatives.	<ul style="list-style-type: none"> • Alignment with Sustainability Commitments • Alignment with Climate Commitments • Leadership & Reputation (positive and negative) • Alignment with research/teaching mission (positive and negative)
Ethics	<ul style="list-style-type: none"> • Support • Neutral • Opposed 	Arguments about divestment & reinvestment based on ethics and morality.	<ul style="list-style-type: none"> • Divestment is a moral/ethical decision (not economic) • Ethics/morality not relevant to financial decisions • Econ v. Environment • Care for planet • Future Generations • Moral Imperative to divest • Justice & Equity
Fossil Fuels	<ul style="list-style-type: none"> • Support • Neutral • Opposed 	Arguments about the impacts, plans, and status of fossil fuels and fossil fuel companies.	<ul style="list-style-type: none"> • Fossil fuel companies are investing in renewables • Fossil Fuel companies are responding to climate change • Fossil Fuel companies are not adequately addressing climate change • Fossil Fuel companies are damaging people and the planet
Renewables	<ul style="list-style-type: none"> • Support • Neutral • Opposed 	Arguments about the impacts, plans, and status of renewable energy and renewable energy companies.	<ul style="list-style-type: none"> • Renewables use fossil fuels too • Renewables have an impact on the environment • Renewables are addressing climate change • Renewables are the solution
Process		Arguments about the decision-making process for divestment & reinvestment at the U.	<ul style="list-style-type: none"> • Mechanisms for risk assessment • Evidence-based recommendations • Assessment of Positives & Negatives
Questions & Suggestions		Questions or suggestions for the ad	<ul style="list-style-type: none"> • Various questions

		hoc committee related to divestment & reinvestment investigation	
--	--	--	--

When coding with the codebook, each comment was assigned both a tone and a code. Each individual comment could include multiple codes (e.g., “economic-support” and “environmental/health-support” for a comment that supported divestment/reinvestment for economic and environmental reasons). Frequency was determined at the comment level, meaning that each code was only counted once per comment.⁴² (e.g., if a comment in opposition to divestment/reinvestment talked about institutional consequences, then about the ethics, and then about institutional consequences again, then the code frequency was recorded as: 1 “institutional consequences-oppose” and 1 “ethics-oppose.”

Code	Definition	Code Frequency
Economic	Arguments about economic factors related to divestment/reinvestment	35
Support		19
Opposed		4
Not Explicit		12
Environment & Health	Arguments about the environmental & health factors related to divestment/reinvestment, including Climate Change	37
Support		29
Opposed		1
Not Explicit		7
Institutional Consequences	Arguments about the consequences of divestment/reinvestment for the U of U	24
Support		13
Opposed		5
Not Explicit		6
Institutional Mission	Arguments about how divestment/reinvestment is or is not aligned with the U’s mission, leadership, commitments, and initiatives	21
Support		20
Opposed		
Not Explicit		2
Ethics	Arguments based on ethics and morality about divestment/reinvestment	31
Support		22

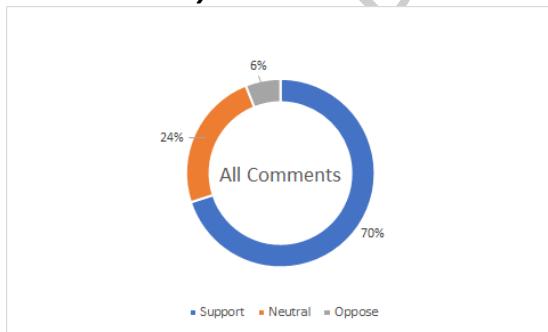
⁴² For example, if a comment in opposition to divestment/reinvestment talked about institutional consequences, then about the ethics, and then about institutional consequences again, then the code frequency was recorded as: 1 “institutional consequences-oppose” and 1 “ethics-oppose.”

Opposed		2
Not Explicit		7
Fossil Fuels	Arguments about the impacts, plans, and status of fossil fuels and fossil fuel companies	15
Support		6
Opposed		4
Not Explicit		5
Renewables	Arguments about the impacts, plans, and status of renewable energy and renewable energy companies	2
Support		1
Opposed		
Not Explicit		1
Process	Arguments about the decision making process for divestment/reinvestment at the U	8
Questions & Suggestions	Questions or suggestions for the ad hoc committee related divestment/reinvestment investigation	7

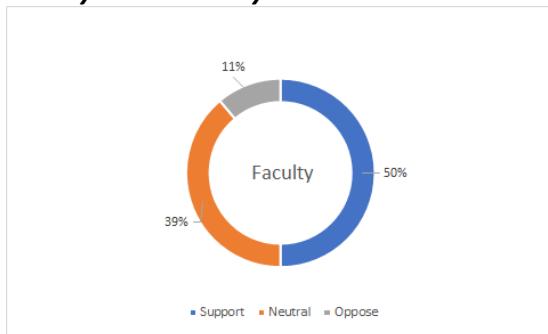
Initial Findings

First, in terms of the stances on divestment/reinvestment in the comments, the results of this feedback process indicate the large majority of those who participated in the process support divestment and reinvestment, followed by comments that did not express a stance, and then comments that opposed divestment. When we looked at the stance expressed by each unique commenter, we found that 70% of comments supported divestment & reinvestment. While this is not a representative generalization about public opinion at the U, it indicates that those who chose to submit comments did so in an effort to express support for divestment/reinvestment.

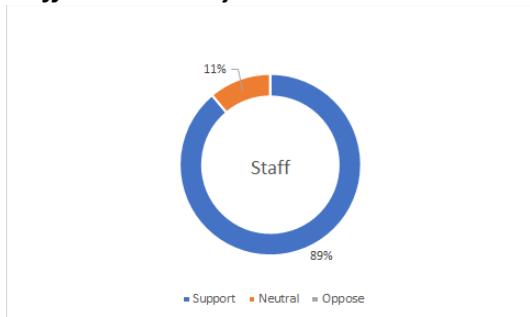
All Comments by Stance



Faculty Comments by Stance



Staff Comments by Stance



Second, as the code frequency chart indicates, economic and environmental/health comments were the most common across all commenters regardless of stance. This is not surprising, given that environmental issues are often framed in an economic versus environment frame. It is important to note, however, that there were no comments in the entire set that denied climate change or denied that fossil fuels are a major GHG contributor to climate change. The comments did not fall into a traditional economics versus environment frame, but rather evidence a disagreement about whether divestment, as a tool, is the best approach to address climate change, reduce environmental and health harms, and manage the endowment. For example, several opposed or not explicit comments questioned the impact of divestment given a presumed small amount of the portfolio devoted to fossil fuel investments as compared to the impacts of reducing the University's GHG footprint from electricity, transportation, and other sources. In another example, economic arguments focused primarily on the fiscal performance of fossil fuels/renewables, including whether the endowment should consider ethics in investment decisions, and whether there was any need for divestment given a presumed poor performance of fossil fuel investments.

Third, a large portion of the feedback pertained to the consequences of divestment and reinvestment for the University of Utah community and the relationship of divestment and reinvestment to the University's mission. While none of the comments cited data or studies indicating how fossil fuel companies or donors would react to divestment and reinvestment, many comments in the category of

Institutional Consequences were concerned with a possible reduction in research funding, ability to perform basic research, relationships with donors, and job placement for students as negative consequences of a decision to divest. Alternatively, comments in support of divestment/reinvestment noted that there was no evidence that divestment would create these consequences. Other supportive comments noted that continued investment in fossil fuels could also have negative consequences for environmental and sustainability researchers at the U. Interestingly, the Institutional Mission theme, mainly appeared in comments supporting divestment/reinvestment, noting that divestment/reinvestment would allow the University to continue to work on its climate commitments, avoid hypocrisy, and act as a leader in sustainability research and teaching.

Fourth, ethical arguments in support of divestment primarily noted a moral or ethical obligation to use divestment as one tactic in the University's response to climate change. Notably, many of the arguments in this section, focused on environmental and climate justice as key reasons to take action to divest and called for the necessity of considering endowment investments from ethical perspective. Ethical arguments opposed to or not taking an explicit stance on divestment/reinvestment tended to focus on whether ethics should be a part of financial decisions. Comments across the spectrum debated how to balance ethics with investment decisions.

While these four points are not exhaustive, they represent some of the more important themes, discussion points, and areas of debate that emerged in the open comment and written comment feedback from the U of U community. The analysis presented here gives a sense of the breadth of the feedback we received as well as the most common themes.

Before we conclude, we want to note the limitations and advantages of our method for collecting and analyzing feedback from the U of U community. First, a limitation of our data is that it is not a representative set of public opinion about divestment and reinvestment from the full U of U campus community. We did not take a survey of a representative sample of the U of U community. Rather, we relied on a "pull" sample to recruit members of the U of U community with interest in divestment and reinvestment; the Town Halls were advertised as a process for gathering feedback and interested participants showed up. As such, these themes represent the feedback of those members of the U of U campus community who were motivated to submit feedback on this question. Second, while we have presented some basic numeric representations of themes and stances, we did not use statistical methods to analyze the raw numbers. Third, our process for data collection is an advantage in that it provides an accounting of who in the U of U community were motivated enough to attend a Town Hall or submit a written comment on this topic. It allows us to understand some of the open-ended arguments of those who chose to submit comments. Third, the open-ended nature of open comments and written comments allowed participants to express their feedback in their own words. As opposed to survey results based on pre-formed questions, open ended feedback allows for themes to emerge inductively from participant comments. Indeed, although we did not specifically ask for stances on divestment and reinvestment, it emerged as important for the majority of commenters to explicitly state their stance. Open ended feedback also allows for a deeper understanding of the reasons for support or lack of support for divestment and reinvestment than could be provided from a survey.

What Does the U of U Feedback Tell Us?

As we noted at the start of this section, feedback from the U of U campus community is just one form of research/evidence that informs this draft report. In summary, our analysis of campus community feedback found that participants more often expressed support for divestment and reinvestment than opposition or not proving an explicit stance. Comments in opposition to divestment were the least

prevalent. Comments in support of divestment and reinvestment spanned all of the themes, with the most prevalent arguments being the environmental/health impacts of continued climate change and fossil fuel consumption, economics related to the financial performance of fossil fuels and renewables, ethics in terms of moral imperatives to act, and positive institutional consequences. Comments opposed to divestment and reinvestment were most often about negative institutional consequences, economics, and fossil fuels (e.g., companies are working with renewables and to address climate change). Comments that did not explicitly articulate a stance on divestment and reinvestment, most frequently addressed the economics (financial performance, role of endowment investors, whether ethics should be involved in financial decisions), environmental/health impacts, and ethics. The main areas of debate across the comments included: financial performance of fossil fuels/renewables, whether the consequences for the University would be positive or negative, whether ethics should be a part of endowment management, and how fossil fuel divestment by the U relates to other aspects of the U's GHG footprint and other climate initiatives.

Given the feedback we received from the campus community, the ad hoc committee's recommendation should be responsive to the preponderance of feedback that supports the University pursuing some form of divestment and reinvestment.

Section 8 Summary and Takeaways

Section Summaries

Overall note:

These section summaries are meant as a synthesis of reasoning takeaways from the larger sections, each written by its own subcommittee. Questions, concerns, or curiosity about each would be best served by scrolling up and reading about that section in detail.

Section 1: Introduction

Summary

Scientific consensus makes it clear that climate change is occurring, with the primary driver being greenhouse gas (GHG) emissions from human activity. The primary sources of these GHG emissions are fossil fuels, namely coal, petroleum, and natural gas, which are used in the transportation, electricity, industrial, commercial & residential, and agricultural economic sectors. The U.S. energy grid is also largely reliant on fossil fuels and requires primarily petroleum and natural gas for its energy consumption. While Utah's energy demands are also dominated by fossil fuels, the state's energy consumption relies mostly on coal and natural gas, with energy usage demands by sector (i.e. transportation, industrial, residential) similar to that of the U.S. at-large.

A critical decision that this committee must make is how it will define the fossil fuel industry within its final recommendations to the Academic Senate. Some institutions chose the 200 largest fossil fuel companies, while some have focused on particular GHG sources (e.g. coal, oil sands, coal and petroleum). Other institutions have chosen a more strict definition to include any and all companies which are involved in the extraction and/or production of fossil fuels and their by-products.

The Academic Senate mandated the committee to also address the impact of various levels of reinvestment away from fossil fuels into other sectors. The committee has chosen to focus on three levels of impact: on students and university relations with alumni; on the university, both with respect to economic return and alignment with our mission; and within the state of Utah, both economically and environmentally.

Takeaway

Climate change is occurring, primarily due to GHG emissions from human activity as it relates to the extraction, production, and consumption of fossil fuels and its by-products. Still, our energy grid locally and nationally is largely dependent on fossil fuels. This committee must make a critical decision regarding the definition of the fossil fuel industry for its recommendations in Section 9, as well as produce a thorough discussion which addresses the impact of these recommendations which concern the success of our students, our university, and our state in all areas.

Section 2: Background of Previous Efforts at the U

Summary

The University of Utah has a history of discussion and action surrounding the divestment and positive reinvestment of its endowment. In 1987, a student-driven campaign to divest stocks held in U.S. companies doing business in South Africa as a part of the anti-apartheid movement succeeded as the then Board of Trustees (known as the Institution Council) voted in favor of this action. This decision came with a caveat: that companies with no plans to sell or withdraw their business from South Africa would be selected, but only as long as a comparable investment could be found.

From 2014-2016, the Academic Senate explored the topic of endowment funds invested in fossil-fuel companies through the use of two committees.

1. One committee recommended divesting the endowment from fossil fuels, while the other did not address it.
2. Following an initial tie vote on a resolution in favor of divestment, a recount of the vote concluded in a vote in favor of the resolution, with 44 in favor, 40 against, and 2 abstentions.
3. In 2016, the Board of Trustees opted to maintain fossil fuel investments in the portfolio and focus on increasing investments in socially responsible and environmentally sustainable options.
4. However, the Investment Advisory Committee was not tasked with reinvestments. Instead, the Investments Office created the TIAA Social Choice Low carbon equity fund and the Core Impact Bond fund to assist the endowment Social Choice Pool.
5. The Socially Responsible and Environmentally Sustainable Investment Advisory Committee (SRESIAC) was to be sponsored by the Sustainability Office, yet four years later this committee has yet to be established. The Sustainability Office is exploring this and other options, though believes this committee must be a University committee that holds the power necessary to make critical investment management decisions.

The current conversation is similar to those in 1987 and the 2010s, but also has its differences. The main similarity is that student passion is a main driver for starting the conversation; a difference is that this time there is emphasis on whether these investments align with the University's mission statement.

Takeaway

The University has experience in the area of divestment and reinvestment of its endowment funds. The efforts in 1987 and the discussions both presently and in the mid-2010s hold similarities and differences in purpose and goals. The previous conversation resulted in a call for the formation of a committee which never came to fruition. This is important to keep in mind as this may indicate that future committees should not be recommended in our proposal in the same way as before unless they are guaranteed to be established in a timely manner.

Section 3

Summary

The laws and policies governing investment of the University's endowment pool require the University to invest the fund with the care an ordinarily prudent person would exercise in similar circumstances and to

consider the charitable purposes of the institution and the purposes of the fund, subject to individual donor intent. The statute itself says that the institution "...shall consider the charitable purposes of the institution and the purposes of the institutional fund." This requires the University to consider other established University purposes, including those related to climate change and sustainability, in determining how to meet its fiscal investment goals.

Takeaway

The laws and policies governing the endowment pool allow for the University, if it wishes, to modify its existing investment pool guidelines and implementation strategy to establish principles and approaches that further its established charitable purposes regarding climate change and sustainability, as well as its fiscal goals, in future endowment investment decisions.

Section 4

Summary

Disclaimer reminder from section 4: We acknowledge that we as a committee are a group of individuals who have selected resources to cite that we thought were best. As such, several caveats we want to highlight are: as many are familiar, "past performance is no guarantee of future results." As a corollary, "past energy usage is no guarantee of future energy usage." While historical data is objective, the choice of what measures to use and groupings to make are human ones. Future trend estimates and financial projections are subjective and rely on global events (political, economic, natural, pandemic) that cannot be predicted. We have done our best to synthesize several viewpoints as such.

The Annual Energy Outlook 2020, produced by the U.S. Energy Information Administration, projected all non-renewable energy production to remain relatively flat or decline through 2050, aside from natural gas. It also projected renewable energy production to nearly double in that timeframe. The net increase in production is expected to be taken up almost entirely by renewable resources.

Markets-wise, the Energy sector overall has been one of the worst-performing over the past decade, with Energy companies in the S&P 500 increasing the least in value among all other categories, while others like Technology and Real Estate increased by 200%+. Furthermore, within the Energy sector over the past 5 years, renewable asset returns in the US grew by 60%+, while fossil fuel returns declined. Here, one might observe that market value can reflect changes in type of energy demand. Taking into consideration all caveats listed above, it would seem prudent to invest accordingly.

Takeaway

While both energy use and market performance are impossible to predict, it is the section 4 subcommittee's opinion that it would be very difficult to look at historical data and projections and make a good argument in favor of holding or growing significant investment in fossil-related assets into the future. On the other hand, it shows that there is a very wide range of investment options available aside from non-renewable energy across all sectors.

Section 5

Summary

Corporate governance is the act of shareholders using influence and votes to guide company management decisions. While one hypothesis is that divesting might have certain positive effects, it is worth considering the question of whether giving up stake in a fossil-fuel-related company is also giving up an opportunity to influence it for the better from the inside. Empirical research in the field of corporate governance finds nuanced outcomes, but overall the science indicates that attempts to exercise corporate governance to change firms' policies toward climate change actions doesn't predictably work. There are, however, examples of correlation between large public equity shareholders with voting rights taking actions and subsequent changes being made, and evidence supports the influence of owners in Private Equity.

The largest category of assets in the endowment portfolio measured in dollars (~30%+) doesn't allow the University to effectively vote its shares anyway. These are passively-owned Public Equity indexes and ETFs offered as investments by large fund companies where the fund manager votes however it wants, because it owns the shares, not the U. Despite public press about new stances on climate change, these funds have historically, statistically, most often voted with the CEO. While the University does invest in Private Equity and real assets, where it does have more of a say, these are smaller components of the current portfolio.

Takeaway

Corporate governance as it has been exercised to date is not a strong reason in itself to avoid divesting given the lack of evidence that shareholder activism gets consistent results. However, the landscape is potentially changing given the rising pressure by core institutional investors such as the U to have their equity stakes voted by the fund managers in ways consistent with addressing climate change risks. One large fund (Blackrock) has announced this will be their policy, as an example. If the University decides to divest and then reinvest, it might seem prudent to consider investing more heavily into other asset types like private equity, real assets, or venture capital, where we have more of a say. This could provide interesting opportunities for shareholder engagement by the University office, or potentially even students.

Section 6

Summary

In order to understand the efforts of other institutions regarding their handling of endowment fund investments in fossil fuels, the committee completed an evaluation of all PAC-12, the AAU, USHE, and the UC3 schools. The University holds membership within all of these groups. The committee found that 7 out of 12 PAC-12 schools, 18 out of 65 AAU schools, 0 out of 15 USHE schools, and 9 out of 22 UC3 schools have engaged in some sort of fossil fuel divestment. The actions taken by these specific institutions were diverse and show the full spectrum of what is considered to be "divestment". Several of the schools that were evaluated looked into divestment and chose not to do so, while others have not begun the process of officially investigating the issue. It is equally important to note that the motivations for institutions who did choose to divest in some way were also wide-ranging, from purely economic considerations to largely ethical concerns.

The committee found that information regarding pro-sustainability investments, such as committing a portion of the endowment to be invested in areas which exclude fossil fuels, requiring other Socially Responsible Investment (SRI) or Environmental, Social, and Governance (ESG) screens, and/or promoting efforts such as renewable energy or community investing, was more difficult to find. An investigation into the Sustainability Tracking Assessment and Rating System (STARS) reports showed that several PAC-12 and UC3 institutions have invested portions of their endowments in SRI/ESG funds, have created official socially-responsible statements or guidelines, and/or have established advisory committees for this particular issue. 117 of the over 420 higher education institutions that currently have a STARS rating utilize some form of positive sustainability investing for their endowment.

Takeaway

Approximately 30% of the 114 higher education institutions from groups the University is affiliated with have chosen to participate in some sort of fossil fuel divestment with regards to their endowment. The research done by the committee indicates that the divestment and reinvestment actions and motivations of the University's peer institutions vary widely. Ultimately, the research suggests that the defining characteristics and values of a given institution play a critical role in determining what actions that school may or may not take with their endowment and why. Many higher education institutions across the country have chosen to engage in some form of positive sustainability investment of their endowments. Indeed, a recent report found that "a growing body of evidence from academic and practitioners shows that sustainable investing strategies, in general, perform as well or better than traditional approaches" (Intentional Endowments Institute, 2020).

Section 7

Summary

Since August of 2020, the committee has hosted monthly public town halls and made available a virtual public comment form. The primary purpose of the fall town halls was to inform the campus community of the committee and to collect input from the campus community regarding their thoughts about divestment and reinvestment of the university's endowment in the fossil fuel sector.

In total, 73 verbal and written comments were made by 50 unique individuals. The majority of these comments came from students, with faculty and staff close behind. The topics that these comments covered can be sorted into nine categories: economic, environment & health, institutional consequences, institutional mission, ethics, fossil fuels, renewable energy, process, and general questions & suggestions. In the first seven of these categories, the tone expressed within these comments ranged from support of fossil fuel divestment and reinvestment in other areas, opposition to fossil fuel divestment and reinvestment in other areas, or a neutral/non-explicit stance. An analysis of the comments and the tone taken within these comments show that a large majority of those who provided a comment are in favor of fossil fuel divestment and reinvestment in other areas. From both written and open (spoken) comments, 38 were in support of a fossil fuel divestment strategy, 5 were opposed to a fossil fuel divestment strategy, and 19 did not explicitly state the commenters position on the topic. While this is not a representation of the entire public opinion at the U, it tells the committee that those who chose to submit comments largely support divestment and reinvestment.

Environmental & health concerns were the most common within the open comment period, and ethical arguments in support of fossil fuel divestment focused on the moral and ethical obligations of the university in its response to climate change. A large portion of the community feedback was with regards to the consequences of divestment and reinvestment on the campus community and how divestment and reinvestment relates to the mission of the university.

The spring 2021 town halls were conducted with the primary purpose of informing the campus community of our research and the progress made in our report and to take feedback based on this information. A Google form with open ended questions was available from March 8, 2021 to April 16, 2021 in response to this committee's draft report and proposal.

Takeaway

The large majority of those who provided public comment were in favor of fossil fuel divestment and strategic reinvestment of the endowment. While these results don't necessarily tell us how the entire campus community feels pertaining to fossil fuel divestment, they do provide us with a certain metric in understanding how those interested in this topic feel, as well as the arguments and data which they see as most important in making a decision.

A note on feasibility

Summary

One core question we have tried to answer is the feasibility in terms of costs, available options, and potential downsides of any divestment and reinvestment activities that might be recommended. The committee has had several conversations with professionals and advisors in the industry who have experience with endowments. These included one that is a current manager for the University, and another who has significant experience advising both non-divested and divested portfolios. Guests from two other University clients of theirs who had divested were also in attendance.

Takeaway

Through these conversations one of the main recurring topics was how to characterize feasible actions, and collecting feedback on the difficulty and possibilities of those actions broken down by category. The result of these conversations can be summarized as follows:

Public equity

- **Feasibility:** Immediate divestment would be cheap and (relatively) fast.
- **Reinvestment options:** Affordable/high-quality/large fossil-excluding public reinvestment options exist. A lack of good options should not be a reason to avoid divesting.

Private equity

- **Feasibility:** Immediate divestment would be ill advised (costing millions of dollars upfront) and roll-off without paying that upfront cost will take a decade (how long we have contractually committed to remain invested), at which point divestment becomes easier (cheaper).
- **Reinvestment options:** Affordable/high-quality/large fossil-excluding private reinvestment options exist. A lack of good options should not be a reason to avoid divesting.

A note on the consequences of divestment

Summary

Another core question we have tried to address is whether divestment would have negative consequences to the University. In the town halls and written comments, the ad hoc committee heard concerns expressed that divestment might have negative institutional consequences that ranged from possible reduction in research funding to losses in job placements for graduate students. Alternatively, the committee also heard comments that there was no evidence that divestment would create these consequences. The committee studied the financial investment of the fossil-fuel industry in the University of Utah and then explored the experiences of other institutions that had announced divestment to see if there were any documented financial consequences, either positive or negative.

Gifts and grants to the University of Utah from corporations and corporate foundations in FY 2020 totaled \$126.7M. Of this funding, more than \$2M was from CU 200 entities (1.6% of total) or their subsidiaries and more than \$1.4M was from PERI 100 entities (1.1% of total) or their subsidiaries. The investments were primarily in research, but also included scholarships and support for public programs in community-facing entities at the University.

We could not find any data that directly addressed the question of whether the fossil fuel industry changed their support of universities that had divested. We did, however, informally reach out to five recently divested universities' corporate and foundation relations staff to see if they had experienced any consequences. Four told us that they had noted no changes in corporate giving; the fifth said that they had been contacted by one CU 200 corporate supporter expressing concerns after the university's divestment plans had been announced. Accepting the explanation that the divestment pertained to only part of the university's endowment, the corporation continued its support.

A web search for partnerships between divested universities and CU 200 corporations found that ExxonMobil continues to promote research collaborations with four divested universities (<https://corporate.exxonmobil.com/Energy-and-innovation/University-and-National-Labs-partnerships/Collaborating-with-leading-universities-to-meet-global-energy-demand#Andmanymore>).

In the March 2021 town hall, a comment was received that the University of Utah had lost a long-time individual donor during the 2015-2016 Academic Senate divestment discussion because the donor would no longer contribute to a university that might divest its endowment from fossil fuels. A review of the philanthropy records and conversations with faculty members in the affected department supported this observation.

Takeaway

We found little evidence that universities' decisions to divest from fossil fuels directly affected corporate support either positively or negatively. The only verified record of negative impact uncovered was that of one long-time, individual donor choosing to stop giving at the University of Utah because of the Academic Senate efforts in 2015-2016. CU 200 and PERI 100 institutions provide considerable research, scholarship, and programmatic support to the University, but we could not find any data that would help us project how divestment might impact that support.

Conclusion

The majority of students, faculty, and staff at the University of Utah who offered feedback to our committee believe that continued over-reliance on fossil fuels⁴³ is a factor in both poor air quality along the Wasatch Front and concerning climate issues worldwide. A previous Academic Senate committee reached many of the same conclusions in 2016, and though they recommended moving our institutional investments out of the fossil fuel sector⁴⁴, that action never took place.

At the request of the Utah State Legislature, the Kem C. Gardner Policy Institute at the David Eccles School of Business created The Utah Roadmap.⁴⁵ The Roadmap identifies opportunities to reduce emissions, improve air quality along the Wasatch Front, and ensure a healthy, productive, and prosperous future for all Utahns. Among other measures, the Roadmap recommends reducing CO2 emissions statewide by 50% over the next 9 years, involving Utah auto dealers in strategies to increase the zero-emissions vehicle supply, developing investment opportunities in energy transition areas such as Carbon and Emery counties, and participation in a national dialogue about market-based approaches to reducing carbon emissions. The Roadmap also encourages Utah state institutions to, “Lead by Example.”

It remains evident that petroleum may well continue to fuel a large percentage of transportation along the Wasatch Front and elsewhere over the next few years and that natural gas is likely to be used to heat homes and generate relatively clean electricity. However, it is also clear that it is now possible to begin replacing a significant portion of the energy demand that has traditionally been met by fossil fuels with other sources.

Going forward, leadership at the University of Utah must consider investing from three perspectives. First, there is irrefutable scientific evidence that burning fossil fuels will eventually lead to our extinction. Falling short of extinction, taking too much time to find a new path will lead to economic devastation for those who can least afford to adapt. Second, from an investing perspective fossil fuels are no longer a growth industry. Without intervention coal is on its way to being rendered obsolete as a fuel and will, by 2030⁴⁶, be an investment in fatal decline. Oil as an investment is imperiled by a growing political will to end the use of gasoline and diesel fuel. California, and now Great Britain, Ireland, and the Netherlands have expressed their intention to outlaw the sale of gasoline and diesel-fueled vehicles by 2035⁴⁷ and 2030⁴⁸ respectively. China decided late last year that most vehicles sold there will be electric by 2035.⁴⁹ The Biden administration has announced its intention to replace the federal fleet with zero emission vehicles.⁵⁰

⁴³ Above, definition: fossil fuels, Section Summaries, Section 1

⁴⁴ University of Utah Academic Senate Minutes, May 2, 2016

⁴⁵ <https://gardner.utah.edu/utahroadmap/>

⁴⁶ International Energy Agency, World Energy Outlook, Executive Summary 2020, pages 20-23, <https://webstore.iea.org/download/summary/4153?fileName=1.English-Summary-WEO2020.pdf>

⁴⁷ New York Times, Friday, January 29, 2021, GM announcement Shakes Up US Automakers Transition to Electric Cars

⁴⁸ ibid.

⁴⁹ ibid.

⁵⁰ New York Times, Wednesday, January 27, 2021

General Motors has announced their decision to phase out gasoline powered cars and trucks and sell only vehicles that have zero emissions by 2035.⁵¹

Section 9 Recommendations

Introduction and Basis for the Recommendations

This section presents the Committee's draft recommendations to the Academic Senate. The recommendations reflect Committee votes on a series of discrete recommendations proposed by committee members. Although the Committee operated based on majority rule consistent with University procedures, the recommendations below were supported by a super-majority of the Committee, and some of the recommendations had unanimous support.

The draft recommendations presented below build on the information and analysis presented in earlier chapters. They reflect extensive input from the University community during Town Halls sponsored by the Committee and written comments submitted to the Committee during fall semester 2020; other indications of opinions by the campus community (such as resolutions passed by the University Staff Council and by ASUU); consideration and analysis of decisions made by other academic institutions and other major institutional investors (including peer institutions in the Pac-12, AAU, USHE, and UC3); and all of the information and analysis presented in earlier sections of this report.

In forming these recommendations, the Committee took note of the fact that (as explained in section 3) applicable state statutes and policies provide that the University's investments should be managed to serve the purposes of the University (which the Committee interprets to include officially adopted University policies on climate change and sustainability and the University mission statement), to fulfill donor intent, and with the degree of care exercised by an ordinarily prudent person. The Committee asked the degree to which the current endowment pool is balanced across the University's economic, ethical, community, and environmental concerns, as expressed in the mission statement, community feedback, and official policies. It also considered the impact of the recommendations on various factors important to the University Community, including whether they would: support or create a limit on student success; support or harm the generation of new knowledge; support or impair education, health, quality of life, and climate justice; support or weaken the long-term success of the institution; and support or curtail the institution's ability to meet climate commitments and lead in sustainability practices.

No one of the above factors dominated or dictated the Committee's deliberations. Rather, the recommendations presented below reflect a balancing of information from all sources and all stated decision criteria.

⁵¹ New York Times, Thursday, January 28, 2021

Recommendations and Rationales

Overall recommendation: As discussed earlier in this report, the University has adopted policies designed to address climate change and climate justice. To advance those policies, the committee recommends a strategic realignment of the University's endowment investments toward promoting positive sustainability investments (as defined in section 6). The University should shift its energy-related investments to companies that reduce emissions of greenhouse gases by generating, distributing, and using clean and renewable energy, or to other investments that promote environmental sustainability. This should be done as quickly as feasible, but in a manner that continues to manage the endowment pool responsibly to support the University and its students, faculty, staff, and programs.

The following specific recommendations are designed to implement this overall recommendation.

Specific implementing recommendations

Recommendation 1: Within one year from the date of adoption of this recommendation, the University of Utah will sell all public equity assets in its endowment from the companies on the "Carbon Underground" (CU200) list.

Rationale: The CU200 list includes the 200 companies with the highest quantities of fossil fuel reserves.⁵² Although the Committee considered several possible ways to define "fossil fuel investments," the largest Committee majority chose this definition for several reasons. It is easy to implement because it requires investment staff and advisors only to check from a pre-approved list of companies, yet it encompasses those companies responsible for a very significant percentage of fossil fuel production. It has also been used by other institutions of higher education in the PAC-12 and across the country, with a track record of successful implementation in investment guidelines and reinvestment decisions. For these reasons, several other universities have chosen this definition to guide divestment and reinvestment decisions.

Recommendation 2: As soon as feasible and prudent, but no later than 10 years from the date of adoption of this recommendation, the University will sell all private equity assets in its endowment from all companies in the upstream (production) and midstream (refining distribution) fossil fuel industry.

Rationale: The Committee chose a longer timeframe for private equity investments because most or all such investments in the endowment pool are pursuant to long-term contracts (up to 10 years) in which the University would incur substantial penalties (potentially

⁵² More detailed information on this list is available at: <https://www.ffisolutions.com/research-analytics-index-solutions/research-screening/the-carbon-underground-200/>.

millions of dollars) due to early withdrawal. Therefore, this recommendation requires divestment of these assets as those contract terms expire, thus avoiding those penalties.

Recommendation 3: The University will strategically realign its divested funds according the following criteria:

1. The University will not make any future public equity investments in CU200 companies, or private equity investments in upstream or midstream fossil fuel companies.
2. The University will reinvest the portion of the endowment fund monies involved in the above recommendations, as well as an appropriate portion of existing uninvested capital, in positive sustainable investments as defined in Section 6 of this report.

Rationale: The overall recommendation is to shift the University's current energy-related investments to companies that reduce emissions of greenhouse gases by generating, distributing, and using clean and renewable energy, or to other investments that promote environmental sustainability. This recommendation will ensure that funds freed up pursuant to other recommendations are not simply reinvested into other designated fossil fuel investments.

Recommendation 4: To the extent the University of Utah endowment retains investments in companies that use significant amounts of fossil fuels (such as the University of Massachusetts' PERI100 GHG companies, which comprises the 100 companies with the highest U.S. GHG emissions⁵³), and if feasible with respect to all remaining investments, it will retain fund managers who (1) are knowledgeable of the practice of shareholder activism; and (2) who will advocate for pro-sustainability company policies in shareholder meetings for those holdings in which the University remain invested and in any future holdings in which the University chooses to invest.

Rationale: Given the extreme difficulty of divesting from all companies that produce or use fossil fuels or produce GHG emissions under the above rules, which collectively represent a huge percentage of the economy, an alternative strategy with respect to those companies is to use the University's voting shares to attempt to influence the sustainability policies of those companies through shareholder elections for corporate directors or on sustainability-related resolutions offered at shareholder meetings. This would be prohibitively labor-intensive for University personnel and would not likely succeed given the small percentage of shares in any given company held in the University's portfolio. However, several prominent fund managers, and an expected emergence of new ones, are utilizing those strategies on behalf of groups of investors whose collective shares may be large enough to succeed in those efforts. Adopting this strategy for remaining investments in these categories will augment the strategy of redirecting portions of the University's investments to climate-friendly and other sustainability-related investments.

⁵³ More information on this list is available at: <https://www.peri.umass.edu/greenhouse-100-polluters-index-current>.

Recommendation 5: The University of Utah will update its Investment Pool Guidelines to include the above recommendations.

Rationale: As explained in Section 3 of this report, the University's investment personnel are obligated to use the care an ordinarily prudent person would use in managing the endowment pool, but also to serve the purposes of the Institution. Because the above recommendations reflect a significant departure from past practices, and because the "purposes of the institution" is not sufficiently clear in this context, incorporating the Committee recommendations expressly in the Investment Pool Guidelines will provide the investment office with appropriate instructions on how to exercise their responsibilities and insulate them from any claims that they are not exercising their fiduciary obligations to the University properly.

Recommendation 6: The Office of the Vice President for Administrative Services and the investment office for the endowment will be charged with providing regular progress reports on the above recommendations to the President of the University, the Academic Senate, the President of the ASUU, and the Office of Sustainability.

Rationale: These recommendations are instrumental in implementing important University policies on climate change and sustainability. It will be useful to obtain information on feasibility and efficacy of these recommendations as they are implemented, so that any modifications or improvements can be considered.

Recommendation 7: A seat dedicated to the Chief Sustainability Officer will be added to the Investment Advisory Committee to assist in the execution of the above recommendations.

Rationale: The Chief Sustainability Officer has valuable expertise related to the implementation of these recommendations that is not otherwise presumptively available in the Investment Advisory Committee.

Recommendation 8: The University will establish a transition management team to assist in possible unintended short-term consequences from this strategic realignment of endowment investments.

Rationale: A recurring theme in the Town Hall and written comment feedback was worry that realignment of our endowment investments with relation to fossil fuel companies that have a relationship with the University and potential donors could have negative consequences for the success of some faculty and students. One Town Hall commenter relayed an anecdote about a donor that became concerned during the last set of deliberations about divestment at the U. This report did not find compelling evidence that proposed changes in divestment and reinvestment policy will substantially affect corporate donations, research, grants, and internship and career pathway opportunities for students at the University. Indeed, there is evidence that fossil fuel companies are maintaining relationships with schools that have divested. Moreover, other feedback suggested that this realignment would support the success

of many other students and faculty members engaged in sustainability research, teaching, and service. However, the recommendations are not intended to intentionally cause harm to any faculty member in their research or other professional activities, or to any student in their educational programs. The transition management team will monitor whether any negative impacts of realignment occur, and recommend ways to mitigate those impacts, with assistance from and in consultation with the SVPAA, whose involvement will ensure that this has a high priority within the University.

Draft for Discussion Purposes Only