

# Reducing the Carbon Footprint of Harvard's Endowment: A Review of Information Gaps and Potential Leverage Points

*Working Paper - September 18, 2019*

*Doug Koplow, Earth Track<sup>1</sup>*

---

Harvard has the largest university endowment in the world.<sup>2</sup> Invested and managed by the Harvard Management Company (HMC), the endowment bolsters the educational mission of the school, funding more than a third of total operating costs each year. Endowment income provides Harvard with increased financial flexibility to weather changes in market or educational conditions; attract and retain quality educators; and fund tuition for qualified students from any background or country of origin.

This scale also means that Harvard's investment decisions matter in ways that go beyond just short-term financial returns. Significant investments into venture capital and private equity provide leverage to bring new ideas and business models into common practice. Continuous access to core funding removes the risk of capital flight and enables HMC to focus on long-term value creation – something that integration of environmental, social, and governance (ESG) issues into investment review and implementation supports. Investment choices by HMC also signal at least implicit approval of the business practices of the firms they invest in to an audience that includes both members of the university community and a wider investment community that closely monitors what Harvard is doing.

HMC's investments should largely align with the moral and educational mission of the school. There is no perfect process to do this: opinions can and do differ, and conditions associated with particular sectors or firms often change over time. Performance metrics in the investment

---

<sup>1</sup> 485 Massachusetts Avenue #2, Cambridge, MA 02139. The author is grateful for review comments provided by members of the Harvard community on an earlier draft of this paper, though is solely responsible for any remaining errors or omissions. This document will be updated from time-to-time as additional information becomes available. Comments or suggested corrections are welcome, and should be directed to [dkoplow@earthtrack.net](mailto:dkoplow@earthtrack.net).

<sup>2</sup> In Harvard's 2018 Financial Report, total investment assets subject to "fair value leveling" totaled \$44.66 billion as of June 30, 2018. This is the subgroup of holdings that includes the vast majority of assets to which any investment policy would be applied. Of this, \$37.7 billion was in the endowment (Harvard University 2018: 18, 20).

space are quantifiable and clear. For these other issues, a transparent oversight process is a prerequisite for confirming that HMC is making good investment choices and quickly identifying and rectifying problematic ones. To be reliable, these oversight systems must allow independent external parties to see and evaluate HMC's choices; and for internal managers to know their decisions will eventually be public.

The size of Harvard's endowment, and the strong reputation of HMC, gives the university some leverage in setting the conditions by which it provides capital to existing and new firms, projects, or investment funds. HMC gatekeepers can identify and help scale new innovations that address hard-to-solve societal problems. Or they can lay out expected operating principles that firms need to follow to be funded by the school -- for example, excluding any that are lobbying to deny climate change or weaken critical environmental regulations.

This influence is admittedly limited in scope. Whether or not HMC buys, holds, or sells its position in a large firm such as ExxonMobil may have symbolic value but in isolation will have little impact on general practice or the stock price trajectory of the firm. Yet in other parts of the portfolio -- private equity or natural resources, for example -- Harvard would have more leverage to set investment conditions with ESG concerns properly integrated. ESG integration is sometimes viewed as a drag on portfolio returns. Empirical data indicate the opposite: that comprehensive integration of environmental impacts within investment decisions can *increase* returns over time, something HMC also recognizes.<sup>3</sup>

This working paper identifies some of the major gaps in Harvard's existing reporting on the climate impacts of its endowment; potential leverage points to address these gaps; and some next steps to develop solutions that protect investment flexibility for HMC while greatly and rapidly improving transparency.

These improvements are needed. Harvard has already signed on to responsible and sustainable investment programs including at least the United Nations Principles for Responsible Investment (PRI), the CDP (formerly Carbon Disclosure Project) climate change program, the Ceres Investor Network, the Intentional Endowment Network, and Climate Action 100+.

---

<sup>3</sup> HMC's Senior Vice President for Compliance and Sustainable Development (Cappucci 2018) wrote that "Despite some mainstream skepticism, more than forty years' of academic and empirical evidence suggests that ESG integration in the investment process can lead to better risk-adjusted returns and long-term value creation".

And yet, the University has not released any significant information demonstrating that these ESG principles are being followed throughout its investment portfolio. At present, oversight of ESG issues within the Harvard endowment is unverifiable and weak. Little information on specific investments is made public, and statements regarding HMC's integration of environmental concerns are qualitative and imprecise. Only with control systems that facilitate robust and independent external review can Harvard students, faculty, and alumni have confidence that HMC's investment process will yield outcomes aligned with the school's stated goals on climate change.

It is promising that the need to go well beyond written commitments is something that HMC staff also acknowledge.<sup>4</sup> And further, that the University appears interested in, and committed to, improving and expanding what Harvard does to address climate change. A recent column by Harvard President Larry Bacow published in *Harvard* magazine (2019) on this topic stated that the school would be "a willing partner and active convener in the search for solutions."

Better public data on Harvard's endowment is an easy place to start. Even if fossil fuel divestment were to be implemented as it is commonly formulated, alignment of the endowment with climate goals would remain uncertain, and important opportunities for Harvard to alter market behavior via its deployment of capital would be left unrealized.

The immediate task is to identify practice and disclosure improvements that also protect Harvard Management Company's flexibility and competitive advantage to identify and act quickly on investment opportunities. Some possibilities are presented below. In addition, I will be soliciting feedback and additional ideas on how to do this from some of the many successful alumni who have founded or run some of the country's pre-eminent hedge, private equity, and investment firms.

---

<sup>4</sup> Cappucci (2018) notes that "...written ESG policies are becoming ubiquitous. Yet, as anyone who has ever looked at investment managers' ESG policies can attest, the existence of a written document is not a reliable indicator of a firm's commitment to or performance on sustainable long-term goals."

## 1. Divestment activities at Harvard have primarily focused on publicly-traded firms; however, the university's investment reach is much broader.

- As of June 2018, Harvard's investment portfolio<sup>5</sup> was more than half deployed in hedge funds (28.9%), private equity (18.9%), and natural resources (5.0%), totaling \$23.5 billion. To put this in perspective, these asset classes alone exceeded the *total endowment* of all but the top five universities in the country as of 2018 (Chronicle of Higher Education 2019).
- In contrast, publicly-traded equities normally targeted by divestment campaigns comprised at most 26.8% of the Harvard portfolio.<sup>6</sup>
- Harvard's asset allocation can shift markedly year-to-year, in part because Harvard's non-profit status enables HMC to enter and exit positions with minimal tax implications. The changing allocations underscore the importance of transparency on all types of holdings. These shifts also illustrate that HMC can decide to exit problematic industries fairly quickly.

## 2. Even without divestment, improved transparency on fossil-fuel related holdings would have significant and beneficial effects on the university's investment-based carbon footprint.

- As shown in Table 1, very little position-level data on the Harvard portfolio is made available to the public. HMC's recent mandated 13F filings<sup>7</sup> with the Securities and Exchange Commission listed less than 20 positions, which in total comprised less

---

<sup>5</sup> Of this, 88 percent was the endowment assets, with the residual being a general operating account, split investment agreements, and other internally designated funds (Harvard University 2018: 19).

<sup>6</sup> The break-out for emerging markets included both debt and equity; the total value above therefore includes some debt. Hedge funds may also engage in strategies involving publicly-traded stocks; however, those positions are embedded within more complex instruments and funds and would not likely be subject to removal from the portfolio based on divestment decisions.

<sup>7</sup> Mandated by the Securities and Exchange Act of 1934, and named after the section of the Act that requires it, 13F filings must be completed within 45 days of the end of each quarter by any institutional manager with more than \$100 million in reportable assets. The filings list individual positions for named types of securities, which are primarily domestic stocks.

than 1 percent of Harvard’s portfolio by value. (Detailed positions reported within the 13F filings are included as Appendix Table A1.)

- Even within this small disclosed slice of the portfolio, nearly one-fifth of what was reported to the SEC were not individual firms, but rather pooled vehicles such as exchange traded funds (ETFs) made up of slices of a broad basket of stocks. As illustrated by Harvard’s existing tobacco restrictions, funds and ETFs are likely to be excluded from fossil fuel divestment commitments, were one to be implemented.<sup>8</sup> This leaves only 0.7% of the Harvard investment portfolio for which there is both position-level public disclosure and applicability to conventional divestment actions.

**Table 1. Harvard’s publicly-reported investment data insufficient to establish transparency, accountability, or climate alignment**

	<b>03.31.19 value</b> (\$000s)	<b>06.30.19 value</b> (\$000s)
Total value of positions reported on 13-F filing	394,136	405,098
Total value of ETFs and Funds	78,778	82,915
ETF and Fund share of total 13-F	20.0%	20.5%
Number of directly held equity positions	6	8
Share of individual stocks in ff sector	0%	0%
Total value of investments as of (as of 6.30.2018)*	44,661,000	44,661,000
Publicly-reported positions/total investments	0.9%	0.9%
Divestment-actionable reporting (excludes funds and ETFs)/total endowment	0.7%	0.7%
Indicated sales under fossil fuel divestment based on publicly-available information	0	0
*Includes endowment (88%), with working capital, split interest agreements and other internally-designated funds comprising the rest. Excludes assets such as receivables.		
<b>Sources:</b> Harvard Endowment 13 F filings, 03.31.2019 and 06.30.2019; Harvard University Financial Report 2018, p. 20.		

<sup>8</sup> The *Harvard Crimson* noted earlier this year that “Harvard divested from the tobacco industry in 1990 and companies tied to the Sudanese government in 2005. The school also withdrew some of its investments from firms that conducted business with the South African apartheid government in the 1980s. In those cases, Harvard divested its own direct holdings, but not those held in externally managed funds, which make up a significant portion of their holdings” (Chaidez and Vrotsos 2019).

- The directly-held individual stock positions reported on the 13F included fewer than ten firms, none of which was related to natural resources. This does not mean the school's endowment has no carbon impact: 13F reporting is required only for long positions, puts and calls, ADRs, and convertible notes. Bonds, foreign (non-ADR) equities, and shorted stock are not reported on. Nor are positions held by Harvard in private equity or hedge. But the 13F filings do indicate that divestment actions focused only on directly-held publicly-traded equities will be insufficient to address the concerns that propel the divestment effort in the first place.
- Improved reporting on investments across the entire portfolio would provide important insights on leverage points to reduce carbon. Concerns over disclosing competitive strategies of HMC can be addressed by lagging the release of data by 6 or 12 months; and by pooling investments across specific limited partnership funds or sectors in reporting if additional masking is required in the short-term due to existing confidentiality agreements with fund managers.
- Data disclosure should also flag company- or sector-overweights clearly, to highlight investments in sectors of concern that are active or in excess of normal weightings in the broad-based indexes. This data view needs to be an integrated one, capturing firm- and sector-holdings even if in the form of etfs, long/short or other hedge or alternative strategies, or fixed income.
- The benefits of increased disclosure by Harvard on climate-aligned investment would be magnified if other large institutions followed suit.

### **3. Harvard has much greater latitude to influence financing terms and corporate practices in its private equity and other direct investments than it does via public shares, ETFs, or mutual funds.**

- While selling public stock positions will move the market little, Harvard may be a major or lead investor in many private equity deals.
- If these are in carbon-intensive industries, Harvard can require particular practices in order to invest, such as full capture of fugitive pollutant releases, advanced systems to track greenhouse gas emissions and reduction opportunities, or the use of imputed (shadow) carbon prices in the evaluation of new capital spending to accelerate ghg reductions within the capital replacement cycle while also reducing the risk of asset stranding.

- Were other institutions to adopt these types of requirements as well, Harvard's leverage would be magnified and practices could become the *de facto* norm, improving the ghg performance of the entire sector. To the extent those requirements also increase the financial breakeven of the investment, this type of investor engagement can result in more appropriate rationing of capital to investments with large externalized social or environmental impacts, or high risks of stranding under even moderate climate regulation.

#### **4. Some asset classes within Harvard's portfolio have no screening at all for environmental impacts.**

- Though insufficient as the only check on investments, basic screening is the absolute minimum due diligence for any institution that cares about the social aspects of its investments. This type of basic review should be applied to all asset classes other than cash and Treasuries.
- Some information on Harvard's environmental review of investments can be found in the endowment's report to PRI, to which Harvard became a signatory in 2013.
- Although most of the information Harvard reports to PRI is restricted and not visible by the public, a summary of HMC's ESG integration by asset class can be accessed. Table 2 summarizes this information (as well as holdings, pricing, and manager type), illustrating that there is no screening at all of bond investments. These comprised more than \$1.5 billion in assets as of 6.30.18, and were significantly higher the prior year.
- Debt instruments can be relevant to fossil fuels or other social concerns; sovereign debt of Puerto Rico and Venezuela are two recent, non-fossil fuel, examples of this. Many high yield bond funds also include a material allocation to energy and carbon-intensive primary industries. Indeed, as fossil fuel industries come under increased pressure to curb carbon emissions, more debt issues for these firms may end up in the high-yield category. All fixed income holdings should be transparently disclosed and subject to environmental screening.
- Harvard notes some ESG integration in other asset classes, but detailed holdings are never made public; nor are details on what that evaluative process means in practice.

**Table 2. Climate Impacts of Harvard Alternative Investments and Debt Instruments Largely Invisible with Uncertain ESG Integration**

Asset type	Net Asset Value \$millions (1)	% change from prior year	Level 1 holdings \$millions (2)	Asset class, % share	Level 1 pricing, % share	Manager Type (3), (4)	Detailed holdings public?	ESG Framework of any kind? (5)	Additional Comments and Latitude for Increased Transparency
<b>Cash and fixed income</b>									
Cash and short-term investment	1,408	-58.9%	1,408	3.2%	100%	All internal	No	No	Asset class not likely to be important from a climate perspective, though very short bonds can be part of cash funds, so could include issues from carbon-intensive firms.
Repurchase agreements	1,149	-37.9%	-	2.6%	0%	Not stated	No	No	Similar patterns as cash.
Domestic fixed income	1,506	-27.2%	1,506	3.4%	100%	All internal	No	No	No integration of ESG, even on rudimentary level. Debt purchases do matter; this asset class appears to all be internally managed, so Harvard has full freedom for independent review and transparency.
Inflation-indexed bonds	847	2.7%	847	1.9%	100%	Likely all internal	No	No, though likely mostly or all US Treasury	If primarily federal TIPS, not particularly relevant to climate issues.
Foreign fixed income	25	-10.7%	25	0.1%	100%	All internal	No	No	No integration of ESG, even on rudimentary level. Same as for domestic fixed income.
High yield debt	131	-85.0%	12	0.3%	9%	Likely all internal	No	Probably no	Relatively small asset class at present, though may jump at different points in the business cycle. Small total holdings, but potentially significant role in restructuring. Were the fossil fuel sector to come under stress due to climate regulations, high yield fund exposure to oil and gas could rise sharply.



Asset type	Net Asset Value \$millions (1)	% change from prior year	Level 1 holdings \$millions (2)	Asset class, % share	Level 1 pricing, % share	Manager Type (3), (4)	Detailed holdings public?	ESG Framework of any kind? (5)	Additional Comments and Latitude for Increased Transparency
<b>Equities</b>									
Domestic equity	4,990	6.8%	490	11.2%	10%	Mixed	Some via 13F filings with SEC.	Yes (internal, external)	<p>Equity value exceeds what was reported in 13F filings by more than an order of magnitude, even before including relevant domestically traded stocks for foreign firms below. The disparity indicates the many different ways HMC holds US stocks. This is also highlighted by the low proportion of the asset for which there are clear market prices (Level 1). Understanding the degree to which these investments are in firms with significant carbon impacts will be critical.</p> <p>Work is needed to address any confidentiality concerns on investment details that may be in place for the alternative holdings of domestic stocks. This could include retroactive disclosure, as well as real-time review by internal, though independent, committees such as ACRS.</p>
Foreign equity	2,401	54.7%	857	5.4%	36%	Mixed	Some via 13F filings with SEC.	Yes (internal, external)	Low Level 1 prices/total for category suggests concentrated bets, including some to climate impacts, probably exist. Same as for domestic equity.
Global equity	2,008	62.1%	-	4.5%	0%	Mixed	Some via 13F filings with SEC.	Yes (internal, external)	Low Level 1 prices/total for category suggests concentrated bets, including relevant to climate, probably exist. Same as for domestic equity.
Emerging market equity	2,562	95.4%	419	5.7%	16%	Not stated	If firm	Yes	Low Level 1 prices/total for category

Asset type	Net Asset Value \$millions (1)	% change from prior year	Level 1 holdings \$millions (2)	Asset class, % share	Level 1 pricing, % share	Manager Type (3), (4)	Detailed holdings public?	ESG Framework of any kind? (5)	Additional Comments and Latitude for Increased Transparency
and debt							names show up in 13F filings.	(external)	suggests concentrated bets, including relevant to climate, probably exist. Mixed asset class; equity would follow US equity model; debt would follow the US fixed income transparency model.
<b>Alternative investments</b>									
Hedge funds	12,896	61.9%	-	28.9%	0%	All external	No	Yes (external)	Surging investment in hedge; 2019 new reports state the asset class now exceeds 1/3 of Harvard's endowment. Many potential areas of concern in the hedge space.
Private equity	8,460	10.9%	-	18.9%	0%	All external	No	Yes (external)	Hedge and private equity comprise nearly half of total holdings. Investment details probably tied up by confidentiality agreements. However, an internal independent committee should be able to review these positions; publish summary data across funds; and over time, institutional investors as a group could increase their latitude for transparency and disclosure by hammering out a better agreement on allowed disclosure.
<b>Real assets</b>									
Natural Resources	2,255	-21.4%	12	5.0%	1%	Forestry and farmland internally managed.	No	Yes for forestry, farmland	Not clear what portion is outside of forestry and farmland; some oil and gas investments would be expected. Internal review by an independent committee is the most basic oversight required. Summary data by type of asset should also be made available to the public.

Asset type	Net Asset Value \$millions (1)	% change from prior year	Level 1 holdings \$millions (2)	Asset class, % share	Level 1 pricing, % share	Manager Type (3), (4)	Detailed holdings public?	ESG Framework of any kind? (5)	Additional Comments and Latitude for Increased Transparency
Real estate	4,005	-25.7%	-	9.0%	0%	Mixed	No	Yes (internal, external)	Real estate can include a variety of real assets, some of which might be energy-related. Basic disclosure of asset types should be done as a preliminary disclosure step.
<b>Other</b>									
Due from brokers	6	-91.2%	-	0.0%	0%		No		
Other investments	<u>12</u>	<u>-36.8%</u>	<u>7</u>	<u>0.0%</u>	<u>58%</u>		No		
	44,661	6.9%	5,583	100.0%	13%				Investments include endowment (88%) plus a few other pooled investments. Vast majority of Harvard's portfolio is comprised of actively-managed assets with limited price transparency.

#### Sources and Notes

(1) Harvard University, [Financial Report 2018](#), p. 20.

(2) Level 1 holdings, for which market prices are readily available, as a share of the total holdings for that asset class. Excludes assets that Harvard classified as "NAV as Practical Expedient," where fund manager-reported NAVs rely on estimates for illiquid securities rather than robust price discovery. Frequently-traded funds such as ETFs would be treated as level 1 prices (FASB 2015).

(3) United Nations Principles for Responsible Investment (PRI), [section 6.1](#), asset class mix, Harvard endowment as of June 30, 2016 (accessed June 2, 2019).

(4) Note that the values shown in the table reported to PRI by HMC are not entirely consistent with other reporting to PRI such as a comment that "[a]s of June 30, 2017, HMC has largely exited the internal management of public markets assets as part of a plan to restructure HMC. The plan also included establishing and integrating a generalist investment model, spinning off various internal platforms, rebuilding our investment processes and analytics, and creating a new risk framework. As a result of HMC's new investment approach, the size of HMC's support organization has been reduced." The disparity may simply be a timing issue as internally-managed investments continue to shift to external managers and passive funds over time.

(5) Harvard reporting to PRI ([section 11.1](#)) doesn't provide much detail on the robustness by which ESG issues are incorporated, only that it is a factor internally; and used in some way for manager selection, appointment, and monitoring externally.

## 5. The rigor of vetting for ESG issues for other asset types is unclear, though based on national data is likely insufficient.

- Reporting to PRI indicates that HMC does incorporate environmental concerns to some degree in its selection, appointment, and monitoring of external managers; and for many internally-managed investments as well.
- The extent and rigor of that oversight is unclear, however.<sup>9</sup> Further, details on the input from third party sources HMC used to vet managers are not publicly disclosed, nor what HMC did with that input, or how approved managers and funds performed after passing an initial review.
- Based on more than 6,000 funds in a database compiled by Mercer consulting and analyzed by HMC Vice President Michael Cappucci, it is possible to develop some expectations on what is likely happening. Admittedly, this process applies industry-wide data on ESG integration by asset class to the mix of assets held within the Harvard endowment. It is possible that Harvard does a dramatically better job than the industry average in selecting managers who robustly and efficiently integrate environmental concerns. While possible, such a pattern is improbable, particularly given the lack of external checks such as public disclosure of HMC positions and resultant independent vetting of holdings and managers. Further, in some asset classes so few managers are assessed within the upper tiers ESG integration ranks (ESG1 or ESG2) in the Mercer survey that Harvard would have few options to choose from to surpass the national averages.
- Table 3 combines Mercer and HMC data to estimate the quality of ESG integration within the Harvard endowment assuming it follows industry averages. This approach indicates that on weighted average basis, 86% of the endowment would fall into the lower two tiers of ESG integration. It is reasonable, therefore, that outside parties are skeptical of unverified promises by HMC to integrate environmental concerns in investment selection and management.

---

<sup>9</sup> HMC's Cappucci (2018: 23) noted that ESG Inclusion brings "a variety of different methods and strategies. These range from active ownership and engagement, to positive screening (selecting *for* certain attributes), to relative weights (sometimes calls "best-in-class selection"), to risk factor investing, to full integration with many managers employing multiple strategies either in combination or tailored to particular asset classes or products."

**Table 3. Industry data on ESG integration by asset class suggest the vast majority of HMC’s investments likely fall into the two lowest tiers**

Strategy type	ESG1	ESG2	ESG3	ESG4	Lowest two tiers	% share of HMC holdings	Weighted average share of portfolio with low ESG3 or ESG4 ratings
	(1)	(1)	(1)	(1)	(2)	(3)	(2)*(3)
Attributes							
All other	0.0%	5.4%	21.8%	72.8%	94.6%	6%	5%
Natural Resources	2.6%	35.5%	29.0%	32.9%	61.9%	5%	3%
Infrastructure	8.4%	33.6%	47.9%	10.1%	58.0%	No data	
Private Equity	3.6%	19.2%	39.8%	37.4%	77.2%	19%	15%
Hedge/Absolute return	0.0%	1.8%	11.5%	86.7%	98.2%	29%	28%
Real Estate	2.7%	23.7%	51.1%	22.5%	73.6%	9%	7%
Fixed Income	0.3%	4.8%	31.7%	63.1%	94.8%	6%	5%
Equity	<u>2.1%</u>	<u>15.5%</u>	<u>60.2%</u>	<u>22.2%</u>	<u>82.4%</u>	<u>27%</u>	<u>22%</u>
Total	1.7%	12.8%	44.9%	40.6%	85.5%	100%	86%

(1) Data compiled in Cappucci (2018) based on 6,047 strategies evaluated within the Mercer Global Investment, LLC Manager Database.

(2) Share of funds in each asset class ranked by Mercer as ESG3 or ESG4, their two worst rankings.

(3) Asset class data from Harvard University (2018), with classes mapped to the categories within the Mercer database. Infrastructure was not broken out in the Harvard endowment, but is likely included within some of the university’s other categories. “All other” includes cash and repurchase agreements.

- A simple improvement would be to include case studies each year that illustrate specific examples of firms or funds that passed or failed this vetting, and why; along with the number of cases the third-party review agent flagged substantial environmental concerns, but Harvard invested anyway.
- A better solution would be to have supplemental review by independent boards linked to Harvard as a routine part of the investment process. The independent reviewers would abide by confidentiality requirements on investments, though would be empowered to issue summary reports on the types of issues they saw in the portfolio of environmental concern, and whether (and to what degree) their recommendations in these areas were followed by HMC. That summary report would be recurring and public.

**6. Even within asset classes that are normally highly liquid, the share of total investments for which there is not Level 1 pricing is very large. This suggests complicated investment vehicles and individual firm overweights are likely to exist within Harvard’s portfolio across all asset classes.**

- Both issues are relevant to broader social or environmental impacts from the school’s investments and the need for broadly-applied transparency rules.
- Portfolio-level reporting by HMC in Harvard’s financial report breaks out holdings by asset class and by the robustness of valuation for particular holdings. Tier 1 holdings are what most of us think of when we invest: traded securities for which there are “quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities...”<sup>10</sup> This seemed the best proxy for the types of public positions that would be affected by the current divestment efforts.
- The Harvard portfolio investments are far more complex, however. Tier 1 assets comprised only 13% of the total endowment as of 6.30.2018. Even for liquid asset classes such as equities, the Tier 1 share was surprisingly low: 10% for domestic equity, 36% for foreign equity; less than 6% for emerging market debt and equity. As would be expected, the Tier 1 value was zero percent for the university’s large positions in both hedge and private equity.
- This data parallels the small fraction of investments captured in 13F filings. It underscores the need for any effort addressing the climate impacts of investments to establish transparency across all asset classes and all types of firms (large carbon emissions are not limited to the fossil fuels sector).

---

<sup>10</sup> Harvard University Financial Report 2018, p. 19.

## **7. Existing review of specific investments by *independent* observers appears limited to public equities for which there are pending shareholder resolutions.**

- At present, there are two advisory committees that provide some independent oversight on environmental issues within the university's portfolio. However, this oversight appears to be quite narrow.
- The Advisory Committee on Shareholder Responsibility (ACSR) is a twelve-member committee made up of Harvard faculty, students, and alumni (4 for each category), and responsible for analyzing proxy issues and making recommendations on how Harvard should vote its shares. Its purview appears limited to analyzing public firms for which there are upcoming ESG-related proxy votes. ACSR's recommendations go to the CCSR, though are not binding.
- The Corporation Committee on Shareholder Responsibility (CCSR) is comprised of members from the Harvard Corporation (President & Fellows of Harvard College). It reviews ACSR recommendations and decides how the proxies should be voted.
  - CCSR does not seem to review any broader a set of holdings for environmental concerns.
  - Attempts to contact some former members of CCSR to learn whether they ever had a broader mandate went unanswered.
  - Learning more about what has been considered, why a broader mandate was not pursued or was discontinued, and whether written reports were done analyzing these options would be helpful. If readers have information on this, please email.

## **8. Improved disclosure of position-level information is well within the power of HMC for nearly every asset class; concerns over competitive positioning of HMC or confidentiality agreements for particular investments can be readily addressed.**

- Both HMC and the University itself have historically resisted efforts to force divestment from any portfolio positions on non-financial grounds and if the activities of those businesses were legal.
- Independent of forced divestment by policy, there is wide latitude for increased transparency on underlying positions. That can facilitate more critical evaluation of

social impacts of particular investments, and of returns historically and risks to expected returns going forward.

- Improved transparency can be done in a manner that protects confidential business information or investment strategies.
  - Delaying disclosure by 6 or 12 months can protect the university's investment strategy. Even with the delay, the historical data would provide useful information on trends. Further, the knowledge that current investment decisions would eventually become public would discipline even those current decisions.
  - For asset classes such as hedge or private equity, the university could provide summary data by asset class showing the dollars deployed under each of the core hedge strategies; summarize investments by industry across funds; or even release investment totals by firm name if a particular holding is within the portfolio of multiple alternative investment managers.
  - Key summary data might include returns from sectors of concern as compared to the overall market; or data on overweight positions within sectors of concern.
- Firms (and universities and governments as well) have a tendency to over-apply confidentiality restrictions to their activities. Over a longer period of time, Harvard, ideally in conjunction with other institutional investors, could establish a better disclosure standard within its private equity and hedge fund agreements. It is likely that this standard could protect the most important confidential data for a fund while still making public much more information on the environmental impacts of investments than is currently done.

## 9. Next steps

Using a mixture of line-item holdings, historical information to address short-term confidentiality issues, and fund names where individual positions can't be disclosed, much improved disclosure on the specific investments within Harvard's investment portfolio could occur very quickly. Done properly, this visibility would facilitate an improved review process for climate issues within HMC, and in a manner that protects HMC's operational flexibility. It would also enable much more rigorous evaluation of the endowment by independent members of the Harvard community.



Near-term steps include release of existing data or studies that may exist but have been kept internal until now; developing a roadmap for disclosure of investment detail that addresses transparency and HMC operations; and more resolution on how ESG integration has affected HMC's operations in recent years.

- Releasing existing climate-relevant data on HMC's processes and investments, including to the extent they exist:
  - Details on ESG integration currently used by HMC. This information would facilitate an external review of the rigor of these evaluations, and whether improvements to the tools or the disclosure of findings are needed going forward.
  - Assessments of the climate impacts of Harvard's investment portfolio by HMC (or CCSR or other Harvard officials) that have not been made public.
  - Assessments of the climate benefits of Harvard's portfolio investments by HMC (or CCSR or other Harvard officials) that have not been made public.
  - Any assessments done by HMC of the operational challenges that restrictions on carbon-intensive investments might cause. This is a critical input to working out solutions.
- Mapping out what disclosure should look like to provide the needed transparency on how closely the individual portfolio investments align with the University's stated climate goals.
  - Interviews will be an important part of this step, including with HMC staff to better understand their constraints; and with Harvard alumni running debt, hedge, private equity, natural resource, or other asset-based funds to identify better options for concurrent climate transparency and investment manager flexibility.
  - Disclosure milestones should be phased, though with the first wave of improvements happening quite quickly.
- New case studies of successful climate-related impact investments by HMC or similar institutions.

**Table A.1.**

**Detail on Harvard 13F Disclosures to the Securities and Exchange Commission**

<b>Security</b>	<b>03.31.19 value (\$000s)</b>	<b>06.30.19 value (\$000s)</b>	<b>Individual Stock?</b>
AAPL / Apple, Inc.	165,266	100,283	Yes
ADRO / Aduro Biotech, Inc.	2,550	987	Yes
EDV / Vanguard Extended Duration Treasury ETF	5,638	6,890	No
BKNG / Booking Holdings Inc.		48,131	Yes
FB / Facebook, Inc.	51,074	32,826	Yes
GLD / SPDR Gold Shares	12,715	13,515	No
GOOGL / Alphabet Inc.	87,722	121,648	Yes
IJH / iShares Core S&P MidCap ETF	5,068	5,198	No
IJR / iShares Core S&P Small-Cap ETF	4,512	4,578	No
INVECO QQQ TR / UNIT SER 1 (46090E103)	8,267	9,426	No
IVV / iShares Core S&P 500 ETF	20,834	21,265	No
MGTA / Magenta Therapeutics, Inc.	5,478	4,906	Yes
NTGN / Neon Therapeutics, Inc.	3,268	2,398	Yes
VEA / Vanguard FTSE Developed Markets ETF	13,453	13,730	No
VIG / Vanguard Dividend Appreciation ETF	313	329	No
VWO / Vanguard FTSE Emerging Markets ETF	7,978	7,984	No
PANW / Palo Alto Networks, Inc.		11,004	Yes
Sources: Harvard Endowment 13 F filings, 03.31.2019 and 06.30.2019; Harvard University Financial Report 2018.			

## References

Bacow, Larry (2019). "[Climate Change](#)," *Harvard Magazine*, September/October.

Cappucci, Michael (2018). "The ESG Integration Paradox," *Journal of Applied Corporate Finance*, V. 30, #2, Spring/Summer 2018

Chaidez, Alexandra and Vrotso, Luke (2019). "[New Harvard Management Company Website Removes Divestment Information, Defends Natural Resources Holdings](#)," *Harvard Crimson*, 9 April.

Chronicle of Higher Education (2019). "[Which Colleges Have the Largest Endowments? The Chronicle List](#)," January 31.

FASB (2015). Financial Accounting Standards Board, "[Technical Corrections and Improvements](#)," *FASB Accounting Standards Update*, No. 2015-10 June.

Feb. 8, 2017, based on 6,047 strategies rated.

Harvard Management Company (2019). "Harvard Endowment 13F filings, [03.31.2019](#) and [06.30.2019](#)," accessed at Fintel.io on June 6 and September 12, 2019.

Harvard University (2018). [Financial Report: Fiscal Year 2018](#)

United Nations Principles for Responsible Investment (2018). [Harvard University Endowment 2018 Reporting framework](#), accessed June 2, 2019.