Investment Disclosures by Asset Class: Current Practice at Harvard Compared to Other Large Funds

Prepared by Doug Koplow,[1] Earth Track, Inc. – July 28, 2021

Overview

Harvard has the largest university endowment in the world. Its investments are run by the affiliated Harvard Management Company (HMC), which operates under the Treasurer of the University and the Harvard Corporation. The University has committed that the endowment will be net zero greenhouse gas emissions by 2050. The stature of both the University and its endowment mean that real innovations in investment tracking, measurement, and selection would have enormous ripple effects across many other large investors. At present, however, there have been no interim milestones publicly announced, little external transparency, a small staff dedicated to achieving net zero, and other limitations that raise concerns about whether Harvard's net zero commitment can or will be met (see summary here).

Disclosure of line-item investment holdings across all asset classes is a simple interim step HMC can do now to improve confidence that they are progressing toward decarbonization in a comprehensive manner and at an adequate pace. This would also engage external parties in evaluating the carbon impact of investments, which in the long run will help HMC achieve carbon reduction goals sooner, even with limited staff.

At present, Harvard reports individual holdings to the public only as required by the Securities and Exchange Commission -- a slice comprising roughly 1% of endowment value. While opponents of disclosure argue publication could telegraph Harvard's investment strategy and dampen returns, this seems unlikely. Delaying disclosure by 6 to 18 months (depending on asset class) can address most of the strategic concerns while still generating a large improvement in carbon accountability. Further, as shown in Table 1,

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[1] This analysis benefited from suggestions and comments provided by Jim Engell, Bevis Longstreth, Valerie Nelson, Ellen Quigley. Any remaining errors or omissions are the responsibility of the author. Please direct comments or suggestions on this document to dkoplow@earthtrack.net.

other pension and endowment managers already publish much more detail on holdings across many asset classes, and have continued to do so for years without any reported ill-effect. Line-item holdings in Harvard's private equity, real estate, and venture capital are also already largely available to subscribers of private databases (e.g., PitchBook and Preqin); making that data more widely available should not be problematic since competing investment managers likely already have it.

In Harvard's – and the global – investment effort to reach a goal of net-zero ghg emissions by 2050, it is important to put in practice a few foundational principles. First, sharing the means of assessing carbon impacts, and publicly comparing across metrics and measurement systems to allow iterative improvements, are pre-requisites for a functional evaluative mechanism without which widespread portfolio decarbonization can't work. Second, much greater transparency on investment holdings and associated climate impacts will, in the end, help everyone to make better decisions, price in carbon risk more accurately and more quickly, accelerate innovation towards low carbon alternatives, and build confidence with other stakeholders that the process is effective. And third, there are quite workable ways to implement increased transparency to the *public* (i.e., not just confidential reporting to third-party organizations) without jeopardizing strategic investment strategies or long-term portfolio returns.

This Table is a work in progress, and continues to have some gaps. If you know of better examples of detailed disclosure in any of the asset classes, please send them along. Similarly, if HMC or other parts of Harvard have partnerships focused on improving the screening and reporting of investments in particular areas that we've not captured, please also let us know.

Table 1: Existing Reporting by Asset Class and Examples of Better Disclosure Elsewhere

Holdings as of 6/30/20[i]	Current Practice	Existing Commitments on Disclosure and Decarbonization	Doing Better
Full endowment $41.9 billion	-Audited financials annually. -Quarterly mandated 13F reporting to SEC; captures directly-purchased US equities, ADRs, and ETFs. -Listing of partnerships in 990 tax filing (see Schedule R, part III, starting PDF page 63 here).	***Public line-item disclosure:*** Only as required by the SEC (directly-held US stock and ETFs) or the IRS (list of related partnerships). Very limited. ***Decarbonization targets and timelines:*** -Net zero ghg emissions from portfolio by 2050 (with desire to meet earlier).	***HMC improvements needed:*** -Implement separate workflows for improved disclosure of holdings and measurement of ghg-emissions, with discrete milestones and timelines for each. -Establish and release interim milestones and timelines to track Scope 1, 2, and 3

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Holdings as of 6/30/20[i]	Current Practice	Existing Commitments on Disclosure and Decarbonization	Doing Better
	-Two internal committees (ACSR and CCSR) focused on proxy voting for public equity positions. -Proxy guidelines on ESG issues also help informally guide other asset classes. -Membership in a variety of external investor and shareholder groups related to ESG investing. -*Climate Report*, believed to be annual, prepared by HMC. Subject to oversight and editing prior to release by the Harvard Overseers. Present version is short and vague, and does not describe actual strategy and disclosure plan. How to make better is described here.	-Developing ghg-measurement methodology HMC will apply in evaluating net zero. ***ESG Integration***:[ii] -Manager expectations letter; formal side investment letter if possible (frequency not reported); sometimes reporting requirements for managers. -Engagement of third party data providers for information (if available) on carbon footprint of portfolio companies. Most reported data kept private. ***External oversight and audit:*** -Long-awaited *Climate Report* (released February 2021) was only 11 pages long, of which only 4 covered new material. ***Partnerships:*** Climate Action 100+, Task Force on Climate-Related Financial Disclosures (TCFD, United Nations Principles for Responsible Investment, Sustainability Accounting Standards Board, CDP (formerly known as the Carbon Disclosure Project), Ceres Investor Network.	emissions and achieve reductions aligned with the 1.5 degree scenarios of the IPCC. -Expand HMC carbon team; current burden on only a few people almost guarantees delays and failure, even if there are external partners. -Reconfigure formal mandate of ACSR and CCSR to oversee all asset classes, not just proxy votes in directly held public equities. -Formalize and standardize rules for external manager carbon disclosures.
Public Equity **$7.9 billion (18.9%)** Estimated sub-groupings, share of	-Quarterly 13F filing for 6.30.2020 reported $495 million in holdings, 6.3% of total public equity positions and only 1.2% of the	***Public line-item disclosure:*** No commitments to improve. ***Decarbonization targets and timelines:***	***HMC improvements needed:*** -Individual positions for all traded domestic and foreign holdings should be listed.

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total endowment: Domestic – 7.4% Foreign – 3.8% Global – 3.2%[iii] Emerging – 4.5%	total endowment. -ETFs are included; however, the 13F excludes stocks traded on non-US exchanges and all mutual funds, as well as bonds. -Even for US stocks, nearly two-thirds of HMC's holdings appear to be in non-reportable formats such as mutual funds.	Reduction in "companies that explore for or develop further reserves of fossil fuels held through dedicated externally managed funds." ***ESG Integration***: For internal and external manager selection, appointment, monitoring. Hands-off approach on pooled investments. ***External oversight and audit:*** ACSR and CCSR shareholder committees review active proxy questions only. ***Partnerships:*** Climate Action 100+ and Ceres for joint investor engagement with large carbon emitters. A couple of improvements, but too slow and too small. Further, over half of the firms it tracks "don't have appropriate short-term targets for net-zero emissions."	-ETF and mutual fund positions should be included in the line item listings, as well as distributed to their underlying holdings as of the valuation date so full university exposure to any specific company could be seen. -HMC should vet and authorize low-cost ghg-screened fund and ETF substitutes for existing unscreened fund holdings in all main asset classes. ***Who has better disclosure already?*** -AP4 (Swedish Pension Fund): lists every single public stock position, domestic and international, including ticker, security identification number, and (for domestic Swedish stocks) the percent of company the fund owns. Similar disclosure for REITs. -CalPERS: lists all foreign and domestic stock positions (starting p. 124 here), going well beyond mandated 13F reporting. -Alaska Permanent Fund Corporation: lists all traded stock positions, including size, unrealized gain, country, and sector. Because a key goal of the Fund is to diversify away from oil and gas sector risk, knowing the sector of stock positions is important.
Private Equity **$9.6 billion (23%)**	-Increasing delegation to external managers, covering more than	***Public line-item disclosure:*** No commitments to improve.	***HMC improvements needed:*** -Work with other institutions to develop

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	80% of holdings by 6.30.2020. -Partnerships listed in 990 tax filings (starting PDF page 62). Lag of about two years between activity date and public visibility. No underlying holdings listed.	***Decarbonization targets and timelines:*** Asset-category timeline not specified. ***ESG Integration***: For internal and external manager selection, appointment, monitoring. ***External oversight and audit:*** HMC uses Institutional Limited Partners Association to review language and structure of legal documents. No indication of efforts underway to allow for increase disclosure of holdings. Existing Harvard shareholder committees would not have oversight on these non-publicly traded assets. ***Partnerships:*** Michael Cappucci of HMC chairs the Private Equity Advisory Committee at UN PRI.	improved contract terms on allowable disclosure. -Formal listing of funds held should be available in financial statements. -Underlying holdings should be published with no more than a two year delay. Arguments against publishing data on underlying holdings often include a statement that releasing holdings information would violate the agreement limited partners (such as HMC) signed with the fund; and (2) would expose HMC's investment strategy for copying. The fund level information is already public in Harvard's 990 Tax Filing. And that information can be converted into holdings data already using private databases such as Pitch Book. Any major competitive threat to Harvard can easily buy a subscription to this data. ***Who has better disclosure already?*** -Fund level data is published immediately, and in financial statements: the Alaska Permanent Fund and AP4 (Swedish pension fund). -CalPERS provides immediate publication of fund-level investments, as well as performance data for each fund. -Third party data providers such as PitchBook and Preqin can already display

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			(to subscribers) underlying holdings in HMC-owned external funds.
Hedge Funds **$15.2 billion (36.4%)**	-Also supposedly being shifted to mostly external managers; however, as of 6.30.2020[iv] less than 25% of hedge investments were attributed to external managers. -Partnerships may be listed in 990 tax filings along with private equity funds; however, partnerships not grouped by asset class or strategy. No underlying holdings listed.	***Public line-item disclosure:*** None. ***Decarbonization targets and timelines:*** Assumedly part of the school's net zero commitment, though flagged as an area of opacity in HMC's 2021 *Climate Report*. ***ESG Integration***: Internal and external manager selection, appointment, monitoring. ***External oversight and audit:*** None known. ***Partnerships:*** None known.	***HMC improvements needed:*** -Immediate disclosure of funds invested in, their investment strategy, and and their mission. -Develop mechanism to track hedge fund flows through sectors and companies of concern, including the scale and duration of exposure. This is important since funds can cycle in and out of many positions in between reporting periods. ***Who has better disclosure already?*** -Unknown; we would welcome examples. Discussions with some hedge fund managers suggest substantial disclosure of holdings is common to investors, though we have not evaluated the details, or frameworks that could be made public.
Real Estate **$2.9 billion (7.1%)**	- 98% were managed by partners external to HMC. -Partnerships listed in 990 tax filings (with about a two-year lag); no underlying holdings. -Unclear if the $2.9 billion figure includes public REITs as well as private real estate partnerships and direct ownership.	***Public line-item disclosure:*** None; fund-level in 990 tax filings with big time lag. ***Decarbonization targets and timelines:*** Not explicitly mentioned, though where and how buildings are constructed, and how they are upgraded and managed, can have big carbon impacts. ***ESG Integration***: Internal and external	***HMC improvements needed:*** -Line-item details on holdings within RE private equity funds. -At least summary data on percent of square feet within portfolio that achieved particular levels of efficiency or is investing in key attributes (e.g., energy efficiency, water efficiency, LEED certifications).

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		manager selection, appointment, monitoring. ***External oversight and audit:*** Not subject to review by Harvard's existing shareholder committees. ***Partnerships:*** None known.	***Who has better disclosure already?*** -Many pensions list private real estate partnerships in their financial reports, which get released much sooner than their 990 tax filings. -We are looking for any current examples of investment-level disclosure of real estate holdings.
Natural Resources $1.1 billion (7.1%)	-Appears to include farmland, timber, and possibly direct oil and gas partnerships as well (these may also be in hedge and private equity). -Spun off internal natural resources group some years back; assets have been a declining share of the portfolio over past ten years, though HMC free to increase.	***Public line-item disclosure:*** Fund-level disclosure only. ***Decarbonization targets and timelines:*** Publicized current exclusion of direct holdings in oil and gas extraction firms developing new reserves. Other parts of the supply chain, or commingled holdings including oil and gas extraction, still allowed; no restrictions to re-entering so long as zero carbon by 2050 is met. ***ESG Integration***: For internally-managed forestry and farmland. External managers not included in Harvard's 2020 Transparency report, despite having recently spun off this division as an externally-managed HMC investment. ***External oversight and audit:*** Not subject to review by Harvard's existing	***HMC improvements needed:*** -List individual funds in advance of 990 filing; group natural resource-focused investments rather than commingle all partnerships together. -Line-item disclosure of natural resource investments. ***Who has better disclosure already?*** -Fund level listings for timberlands in Sweden's AP3 pension fund and CalPERS (page 382).

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Holdings as of 6/30/20[i]	Current Practice	Existing Commitments on Disclosure and Decarbonization	Doing Better
		shareholder committees. ***Partnerships:*** None known. Main natural resource portfolio co-owned with AIG (who bought part of HMC's stake).	
Other Real Assets $0.5 billion (1.3%)	-Not clear what these are. More detailed line items on holdings within the Pooled General Investment Account have no obvious corollary. We assume it is infrastructure, though it could be fossil-fuel related.	***Public line-item disclosure:*** None. ***Decarbonization targets and timelines:*** None specified. Assumedly included within 2050 net zero target, though unclear how carbon impact of infrastructure investments would be measured. ***ESG Integration***: General communication of goals to managers by HMC. ***External oversight and audit:*** No public infrastructure funds listed in HMC's 13F filing, so appears as though existing committees have no activity in this asset class at present. ***Partnerships:*** None known.	***HMC improvements needed:*** -List individual funds in advance of 990 filing; group infrastructure investments together for some level of transparency, and describe what they are invested in. -Publish guidance on how HMC will evaluate the carbon impacts of infrastructure investments, particularly the carbon intensity of building and operating it, versus products shipped. -Line-item disclosure of infrastructure investments and other real assets, including what they are invested in. ***Who has better disclosure already?*** -Fund level listing for private investments in infrastructure funds (Sweden AP3 and CalPERS – page 381). -Public infrastructure funds such as IShares IGF (the largest infrastructure ETF in the world) lists all positions and some sustainability metrics.
Bonds/TIPS $2.1 billion (5.1%) Estimated sub-	-No disclosure of bond holdings by issue or even by sector. -Only if convertible into a US stock	***Public line-item disclosure:*** No ***Decarbonization targets and timelines:***	***HMC improvements needed:*** -Line-item disclosure of individual bonds, with purpose of issue for any line items

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groupings, share of total endowment: Domestic – 2.8% High yield – 0.3% Inflation indexed – 1% Emerging – 1.1%[v]	would it possibly be on the 13F list. -Some credit funds show up in HMC's 990 PF filings, though the partnerships are not broken out by asset class.	None known. ***ESG Integration***: No, per HMC reporting to the UN PRI. ***External oversight and audit:*** None known. ***Partnerships:*** None known.	claiming to be "green" bonds. -Line item disclosure of commingled but publicly-traded mutual fund or ETF fixed income holdings. -Line item disclosure of private fixed income or distressed credit funds. ***Who has better disclosure already?*** -Fund-level disclosure of positions in credit funds is being done by the Alaska Permanent Fund. -Swedish pension fund AP3 for individual bond listings, including currency and ISIN, maturity date, market value, and ultimate parent company of issuer. -CalPERS has line item disclosure of US Treasuries and Agencies, foreign issued bonds, mortgage-backed securities, mortgage loans, asset-backed securities and corporate bonds (starting PDF page 5), as well as credit funds (PDF page 373).
Cash and Other **$2.3 billion (5.6%)**	Total cash and other category reported in financial report.	***Public line-item disclosure:*** None. ***Decarbonization targets and timelines:*** None. ***ESG Integration***: Per Harvard's reporting to the UN PRI, there is no ESG integration for cash and cash equivalents.	***HMC improvements needed:*** -Cash holdings are carbon relevant in two main ways: CE may be short-maturity holdings of commercial paper from firms with a large carbon footprint; and the banks with which HMC holds cash can be carbon-sensitive or large funders of fossil fuel expansion. -HMC cash and CE reporting should provide sufficient detail to allow these

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		External oversight and audit: None known. ***Partnerships:*** None known.	two factors to be evaluated. ***Who has better disclosure already?*** -Unknown; examples would be welcomed.

[i] Harvard University (2020). *Financial Report Fiscal Year 2020*, October.
[ii] ESG integration practices are taken from the public version of the Harvard University Endowment *2020 RI Transparency Report,* which the university is required to complete as a signatory to the United Nation's Principles for Responsible Investment. Harvard has chosen not to allow public access to most of the detailed information on portfolio holdings and engagements on key ESG issues that they report to PRI.
[iii] Global equities likely include funds and ETFs that include both US and ex-US firms.
[iv] FY 2020 Financial Report, p. 22, based on fair value at the close of the fiscal year. The number reported ($3.386 billion) includes both external managers for hedge and natural resources, so the hedge portion in reality will be somewhat smaller than the value shown here.
[v] Harvard's financial report combines emerging market debt and equity as a single line item. To separate out the bond portion, we assumed that the overage from all public equity categories in the Pooled General Investment Account (page 24) relative to the public equity reported in the CEO letter (pager 9) was the emerging market bonds portion.