Introduction

This memo gives a brief summary of HMC's Sustainable Investment Strategy and details HMC's recent engagement activities through collaborative engagements, participation with aligned organizations, and speaking engagements.

Sustainable Investment Strategy

HMC has developed a multi-year Sustainable Investment Strategy focused on six strategic initiatives:

- Distribute a manager expectations statement
- Collaborate with like-minded investors on issues of concern to the Harvard community (e.g., climate risk) to enhance the effectiveness of engagement efforts
- Increase reporting to Harvard University stakeholders on sustainable investment initiatives
- Develop an environmental, social and governance (ESG) monitoring and assessment framework
- Improve ESG integration in the investment process

Collaborative Engagement

With our increased utilization of external managers, we believe the most significant way to engage with publicly listed companies will be through collaborative engagements, such as those organized by the United Nations-supported Principles for Responsible Investment (PRI), the Ceres Investor Network on Climate Risk and Sustainability (Ceres Investor Network), and the Sustainable Accounting Standards Board (SASB), where HMC can join forces with other like-minded asset managers and asset owners.

Collaborative engagements are driven by a range of factors, beginning with the stated objectives of the engagement. Participating investors can utilize a wide range of engagement approaches, often starting with letter-writing campaigns and in-person meetings with senior executives and members of the board of directors. Depending upon how this dialogue progresses, investors may escalate engagement through making a statement at a company's annual general meeting, supporting shareholder resolutions on topics of concern (e.g., climate risk), voting for removal of directors who have not demonstrated accountability, and voting against company led resolutions. By their nature, collaborative engagements are usually multi-year initiatives.

Three of HMC's recent collaborative engagements are described below.

Climate Action 100+

This past September, Harvard, through its affiliation with the Ceres Investor Network, joined Climate Action 100+, a multi-year, investor-led initiative to engage the world's largest corporate greenhouse gas emitters to take steps to address climate change. According to its 2019 Progress Report, since its launch at the One Planet Summit in late 2017, Climate Action 100+ has grown to be one of the most influential and significant investor initiatives on climate change with more than 370 investor signatories representing more than $35 trillion in assets under management.

The three objectives central to the Climate Action 100+ engagement agenda are:

- Improve corporate climate governance, including a strong governance framework which clearly articulates the board's accountability and oversight of climate change risks and opportunities
- Curb greenhouse gas emissions across the value chain, consistent with the goals of the Paris Agreement
- Strengthen climate-related financial disclosures, including alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

HMC will join other investors on three to four company engagements. The target companies will be selected based on the relevance to HMC's portfolio and the ability of HMC's staff to add meaningfully to the engagement.

PRI-Coordinated Collaborative Engagement – Methane Emissions

Over the past three years, HMC has served as a co-lead investor in engaging with two major fossil fuel companies in the PRI's collaboration on methane emissions. As a participant in this collaboration, Harvard agreed to keep the names of the target companies confidential. In this memo they are referred to as Company A and Company B.

As a co-lead investor, HMC signed letters to all companies targeted in the collaboration, and engaged in dialogues with both Company A and Company B to better understand their risk management activities with respect to the monitoring and reduction of methane emissions.

The objectives of the engagement were three-fold:

1. Strengthen investor understanding on methane risk exposure in global portfolios
2. Understand best practices in managing methane risks and transfer these learnings across companies
3. Encourage energy and utility companies to improve their management and reduction of methane emissions and to strengthen disclosure of their progress

Through our work on this engagement we connected with oil and gas experts at the Environmental Defense Fund (EDF) and HMC team members had the opportunity to provide input on two investor white papers authored by EDF and jointly by PRI, EDF, and Ceres. Both papers offer guidance to the energy industry on methane management and investor reporting.

Following years of substantive engagement, including this collaboration, Company A announced that it had taken the following actions:

- Assessed the impact of climate change and the adoption of the Paris Agreement on its business
- Adopted a plan to reduce methane emissions by 15% and a 25% reduction in flaring by 2020
- Joined voluntary initiatives including the Methane Guiding Principles and the Oil and Gas Climate Initiative (OGCI), which includes group-wide methane intensity reduction targets
- Submitted a formal comment to the Environmental Protection Agency (EPA) supporting the need for strong methane policy (after receiving a letter from investors requesting that Company A follow through on its commitment to advocate for sound methane policy)

During the period of the engagement, Company B:

- Publicly committed to end routine flaring by 2030 and provide interim progress reports to stakeholders, including investors
- Joined the OGCI and committed to the initiative's methane reduction targets
- Announced its intention to become carbon-neutral across the value chain (scope 1–3 emissions)
- Issued a climate report providing information on its OGCI membership, low-carbon technologies and initiatives, target setting, and IEA Sustainable Development (1.5°C) Scenario modelling

In August 2019, Harvard joined with 140 other investors representing over $5.5 trillion in assets under management on a statement calling on the top 35 oil and gas producers to oppose the EPA's proposed rollbacks of the New Source Performance Standards (NSPS) and publicly support continued federal regulation of methane emissions. Under the current administration, the EPA has taken preliminary steps to roll back the NSPS regulating oil and gas methane emissions. Because the rollbacks are not yet finalized (the comment period is open through November 2019), investors are calling on companies to support the existing regulatory framework and pressure the American Petroleum Institute (API), a major trade association for the sector, to withdraw its support for the rollbacks.

PRI-Coordinated Collaborative Engagement – Corporate Climate Lobbying

In 2015, HMC participated in a collaborative engagement led by the PRI targeting public companies that indirectly lobby, through trade and industry associations, against climate policy despite publicly supporting the need for climate policy solutions. The engagement included:

- Development of a public statement outlining investor expectations of companies' lobbying activities as they relate to membership and support of trade or industry associations actively lobbying against climate policy
- Private engagement with target companies

The PRI, together with the Institutional Investors Group on Climate Change and members of this collaboration, developed the Investor Expectations on Corporate Climate Lobbying (the Investor Expectations), setting out expectations for company practice and disclosure on climate change-related policy activity. The Investor Expectations provide that companies should be consistent in their policy engagement in all geographic regions and that they should ensure that any engagement conducted on their behalf or with their support is aligned with the signatories' interest in a safe climate, in turn protecting long-term value.

Signatories to the Investor Expectations recognize the threat of climate change to their investments, as well as the critical role that public policy plays in mitigating climate risk. As a lead investor for this collaborative engagement, the Harvard endowment is a signatory to the Investor Expectations, which has been signed by over 70 investors with more than $4.5 trillion in assets under management.

PRI Global Statement on Investor Obligations and Duties

In February 2017, Harvard University became a signatory to the PRI's Global Statement on Investor Obligations and Duties (the Statement).

Despite significant progress on ESG issues, many investors have yet to fully integrate ESG factors into their investment processes. There are a variety of reasons for this, but one of the most commonly cited is the lack of regulatory clarity around fiduciary duties and the reluctance of many regulators to adopt measures to encourage better ESG practices. For certain institutional investors, such as public pensions operating under proscriptive statutory regimes (e.g., ERISA in the US), there remains concern that in the absence of clear guidance requiring the consideration of ESG factors such investors' fiduciary duties or statutory obligations may prohibit them from incorporating ESG factors in their investment process. A survey by the PRI found the lack of regulatory clarity on investors' obligations and duties as one of the most common barriers to investors taking ESG issues into account. The goal of the Statement is to seek clarification to provide national governments with the confidence to act, knowing that other countries were also taking action.

The Statement calls for investors to:

- Act with due care, skill, and diligence, in line with professional norms and standards of behavior
- Act in good faith in the interests of their beneficiaries and clients, including avoiding conflicts of interest, or where such conflicts are unavoidable, to balance and disclose such conflicts
- Take account of ESG issues in their investment processes and decision-making, encourage high standards of ESG performance in the companies or other entities in which they are invested, and support the stability and resilience of the financial system

In addition, the Statement calls for:

- International and supranational policymakers to clarify investors' obligations and duties, in particular, in relation to the integration of ESG issues into investment practice
- National policymakers to ensure that their national policies align with this clarification of investors' obligations and duties and to ensure that these policies are effectively implemented

Aligned Organizations

HMC actively seeks to identify organizations whose missions align with our sustainable investing philosophy and goals. The Harvard Corporation Committee on Shareholder Responsibility (CCSR) currently approves any formal affiliations by the Harvard endowment and any third-party organization (e.g., the Harvard endowment is a signatory to the PRI). Formal affiliations between HMC and third-party organizations (e.g., the Institutional Limited Partners Association (ILPA) and the Managed Funds Association (MFA)) are considered by the HMC Board.

HMC has identified the following organizations for their work in sustainable investing, as well as opportunities for collaboration.

Principles for Responsible Investment (PRI)

In 2014, the Harvard University endowment became the first U.S. endowment signatory to the PRI, the world's leading proponent of responsible investment. The PRI represents a network of global asset owners, investment managers, and service providers that are committed to integrating ESG issues into their investment practices. The PRI has grown consistently since its founding in 2006 and now has over 2,250 signatories representing over $80 trillion of assets under management. Of these signatories, nearly 500 are asset owners, representing nearly $20 trillion of assets under management.

The PRI works to achieve a sustainable global financial system by encouraging adoption of its principles and collaboration on their implementation; by fostering good governance, integrity, and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures, and regulation.

By joining the PRI, a signatory agrees to:

- Incorporate ESG issues into its investment analysis and decision-making processes
- Be an active owner and incorporate ESG issues into its ownership policies and practices
- Seek appropriate disclosure on ESG issues by the entities in which it invests
- Promote acceptance and implementation of the Principles within the investment industry
- Work together the other signatories to enhance effectiveness in implementing the Principles
- Report on activities and progress towards implementing the Principles

Kate Murtagh, HMC's Managing Director, Sustainable Investing, and Michael Cappucci, HMC's Senior Vice President, Sustainable Investing, represent HMC on the PRI Hedge Fund Advisory Committee. Michael Cappucci also represents HMC on the PRI Private Equity Advisory Committee.

Managed Funds Association (MFA)

The MFA represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent, and fair capital markets. MFA, based in Washington, DC, is an advocacy, education, and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers, and communicate the industry's contributions to the global economy. MFA members help pension plans, university endowments, charitable organizations, qualified individuals, and other institutional investors to diversify their investments, manage risk, and generate attractive returns over time. MFA has cultivated a global membership and actively engages with regulators and policymakers in Asia, Europe, the Americas, Australia, and all other regions where MFA members are market participants.

The MFA Institutional Advisory Council is comprised of large institutional investors including state retirement systems, foundations, and endowments. Through this Advisory Council, institutional investors participate in MFA's advocacy, education, and communications efforts.

Institutional Limited Partner Association (ILPA)

ILPA engages, empowers, and connects limited partners in investment entities to maximize their performance on an individual, institutional, and collective basis. With approximately 450 member institutions representing more than $2 trillion of private equity assets under management, ILPA is the only global organization dedicated exclusively to advancing the interests of limited partners and their beneficiaries through best-in-class education, research, advocacy, and events.

Kate Murtagh and Samantha McCafferty, HMC's Assistant Vice President, Sustainable Investing, represent HMC on ILPA's Advisory Committee and Working Group on Diversity and Inclusion. Michael Cappucci represents HMC on ILPA's Legal Advisory Council.

Ceres Investor Network on Climate Risk and Sustainability (Ceres Investor Network)

Ceres is a US-based nonprofit organization that works with investors and companies to create economic solutions to sustainability challenges. Ceres is organized through three networks: the Ceres Investor Network, the Company Network, and the Policy (BICEP) Network.

The Ceres Investor Network is a leadership program for institutional investors organized by Ceres. The Ceres Investor Network brings asset managers, pension funds, foundations, and other institutional investors together to engage on sustainable strategies, policy solutions, and leading investment practices. Members of the Ceres Investor Network gain access to reports, webinars, and expertise at Ceres and member companies.

The Ceres Investor Network generally operates through working groups, events, and advocacy. Currently, there are seven working groups organized under the Ceres Investor Network:

- Carbon Asset Risk Working Group
- Investor Water Hub
- Policy Working Group
- Sustainable Forests Working Group
- Investor Initiative for Sustainable Exchanges Working Group
- Low Carbon/Clean Energy Investment Working Group
- Shareholder Initiative on Climate and Sustainability

Over 130 institutional investors participate in the Investors Network. Other members include University of Washington, University of California, Amherst College, and large asset managers such as BlackRock, State Street Global Advisors, and the Massachusetts Office of the State Treasurer.

Sustainable Accounting Standards Board (SASB) Alliance

SASB is a non-profit, independent organization that sets standards for sustainability accounting. Its mission is to assist public companies in disclosing material, decision-useful information to investors in SEC filings. SASB is designed to help public companies provide information that is most likely to have material impacts on financial or operating performance in a way that is cost-effective for the reporter. Industry-specific standardization and integration with existing SEC filings, reduces the burden on issuers and consolidates information for investors. SASB standards can also benefit issuers by enhancing their internal evaluations and the quality of feedback to decision makers.

The SASB Alliance is a program of the SASB Foundation, the organization that funds SASB’s standards setting work. The SASB Foundation provides education and resources that help people and organizations apply the standards to their own work.

SASB Alliance membership provides an opportunity to develop and explore best practices to integrate material sustainability information into existing processes. Organizations benefit from the SASB Alliance with educational materials, unique resources, and product discounts. Members share the belief that today’s capital markets need standardized sustainability disclosure and effective ESG integration into investment practices—for the benefit of both companies and investors.

Other SASB Alliance members include CalPERS, CalSTRS, TIAA Investments, State Street, and KKR.

Additionally, HMC, as a member of the SASB Alliance, has joined SASB's Investor Advisory Group (IAG). The IAG is an invitation-only subset of the SASB Alliance. IAG member organizations engage with companies on the use of the SASB standards and advise SASB staff and the SASB Foundation Board on SASB strategy. Michael Cappucci represents HMC on the IAG.

Recent Speaking Engagements and Publications

Members of HMC's sustainable investment team actively promote ESG integration and our sustainable investing practices with other institutional investors and asset managers. Our team is often asked to speak at industry events on Harvard's approach to the challenges and opportunities of sustainable investment.

Speaking Engagements

- Mercer Global Investment Forum, *Applying ESG as a U.S. Fiduciary*
- AIMA Canada Investor Forum, *The Rise of Responsible Investing*
- Fiduciaries Investor Symposium, *Investing in an SDG Framework*
- NYSE Investor Relations Summit*, Sustainable Investing, Then and Now*
- Institutional Investor Forums, Sustainable Returns: Environmental, Social and Governance Investing (advisory board member, conference co-chair), *ESG & Impact Investing: Risk & Return*
- Endowments & Foundations Roundtable, *Theory in Practice: ESG on an Enterprise Level*
- Harvard College, Universities: Past, Present, and Future Seminar, *The Divestment Debate – A Panel Discussion*
- MFA Seminar Series, *ESG and Sustainable Investing (Views from HMC)*
- Harvard Business School, Advanced Leadership Initiative, *Sustainable Investing at HMC*
- Top Minds in Compliance Podcast, "Kate Murtagh on Sustainable Investment"
- NYU School of Law – Institute for Corporate Finance – *Corporate Governance Boot Camp: The Cutting Edge: Sustainability, Diversity, and Social Purpose*
- Markets Group's 6th Annual Global Institutional Real Estate Investor Forum, *Allocation Plans*
- MFA's Global Summit 2018, *A Conversation on ESG Investments*
- MFA's Human Capital Forum, *Diversity and Inclusion in Hedge Fund Investing*
- Markets Group 6th Annual New England Institutional Investor Forum, *ESG Now and Then: Recent Trends in Implementation*
- Council of Institutional Investors Fall Conference, *ESG Integration*
- Sustainable Investment Forum North America, *Tackling the Energy Sector: Investment, Divestment, or Engagement?*
- SuperReturn Energy, *ESG – Are we just paying it lip service?*
- PEI-PRI Responsible Investment Forum Europe, *Taking a deeper dive into SASB standards*
- Pensions & Investments, ESG Investing 2019 (Boston), *ESG Investing Across Asset Classes*
- MFA Seminar Series, *ESG and Sustainable Investing (Views from HMC)*
- ILPA Private Equity Legal Conference, *ESG Investing in Private Equity*
- Deutsche Bank Bridging the Gap Conference, *ESG – Design or Consequence?*
- PEI-PRI Responsible Investment Forum New York, *ESG and the American Frontier*
- Ropes & Gray roundtable, *ESG Integration for Asset Owners and Managers*
- Markets Group Private Equity Exclusive, *Environmental, Social, and Governance*
- PRI In Person 2019 Conference, *Ensuring Private Equity Supports Responsible Investment*

- PRI Academic Network 2018 Conference – Discussant/Moderator, *Pricing ESG factors*
- Perspectives Towards a Sustainable Future podcast, *Sustainable Investing for the Real (Centuries) Long-Term,* Season 3, Episode 4

Publications

- Interview with the Environmental Defense Fund on methane emissions reduction (M. Cappucci)
- "The ESG Integration Paradox" published in *Journal of Applied Corporate Finance* (M. Cappucci)