



## Our View

HMC is fortunate to collaborate with outstanding external managers, many of whom we have partnered with for a long time. When HMC engages with external managers, we expect them to consider relevant ESG factors that could have a material impact on the financial performance of their portfolios and to have a willingness to engage in a dialogue on sustainable investing.

Our approach to ESG integration is not proscriptive and we do not seek to limit our managers' investment universe. Rather, we believe that ESG factors may provide valuable signals in a manager's investment process. The successful integration of ESG factors is intended to contribute positively to HMC's risk-adjusted returns. In that spirit, we would like to share our view of sustainable investing.

## ESG Integration

Harvard University was the first U.S. endowment to become a signatory to the United Nations-sponsored [Principles for Responsible Investment](#) (PRI). Accordingly, we are committed to considering ESG factors in the course of our investment underwriting and monitoring process.

ESG integration is an approach to considering environmental, social, and governance issues in the investment underwriting process. As a long-term investor, HMC believes that considering all data—including relevant ESG factors—is not only in line with our fiduciary duty, but simply something that thoughtful investors do.

While it is important to understand how HMC considers ESG integration, it is equally important to understand the elements of a broader sustainable investment approach that our program does not incorporate. For example, HMC does not have a mandate for impact investment where we actively seek a social or environmental return separate from, or in addition to, our financial return. Additionally, we do not segregate a portion of the endowment for thematic investing. Finally, the only negative screening (divestment) in the portfolio is determined by Harvard University on very rare occasions (see Ethical Considerations and Investment Exclusions, below).

The degree to which ESG factors are relevant and material to an investment depends on many factors, such as the specific company or asset, the industry in which it operates, and the type of investment strategy. ESG factors may have a direct financial impact on an investment, such as additional environmental regulation increasing operating costs, or health and safety violations leading to fines or legal liability. ESG factors may also have an indirect financial impact on an investment such as harassment or discrimination claims in the workplace impairing a company's ability to attract talented employees, or safety-based product recalls impairing customer loyalty, as well as a company's reputation and brand.

## Diversity and Inclusion

Diversity and inclusion is an important issue in the workplace, not only for our external managers, but for the investments that they make. A central tenet of HMC's investment culture is the belief that a healthy organization is critical to investment success. To succeed, firms must attract and retain the best talent from the broadest pool possible.

## Stewardship

We believe that investors should follow best practices in corporate governance including engaging with portfolio companies where appropriate and responsibly exercising voting rights. Harvard University's stewardship practices and preferences on ESG-related proxy votes are made available in [annual reports](#). While we do not require external managers to follow these recommendations—or even necessarily share Harvard's views on every issue—we do expect our managers to have a robust approach to stewardship and to make informed voting decisions.

## Climate Change

In 2019, Harvard President Lawrence Bacow [outlined his vision](#) for the University's role in addressing the urgent threat of climate change. Harvard believes that climate change is one of the most consequential challenges facing the world today and further believes that it is vital for investors to consider transition and physical climate-related risks and their effects in their investment processes.

## Ethical Considerations and Investment Exclusions

As an academic institution, Harvard holds its endowment funds in trust to advance programs of education and research, which constitute the University's distinctive way of serving society. Generous benefactors gave these funds to Harvard over many years to advance academic aims, not to serve other purposes, however worthy. As such, the University maintains a strong presumption against divesting investment assets for reasons unrelated to the endowment's financial strength and its capacity to further Harvard's academic goals. Harvard conceives of the endowment fundamentally as an economic resource, not as a lever to advance political positions or to exert economic pressure for social purposes, which could entail serious risks to the independence of the academic enterprise and the ideal of free inquiry.

At the same time, the University recognizes that very rare occasions may arise when companies' activities are so deeply repugnant and ethically unjustifiable as to warrant the University's institutional dissociation from those activities. When, on rare occasions, the University issues investment restrictions to HMC, these restrictions extend to direct internal holdings, as well as to direct holdings by investment managers trading in the name of President and Fellows of Harvard College through separately managed accounts. These restrictions do not extend to investment advisers of commingled funds where Harvard is not the sole investor.

## Harvard University Endowment

Harvard's endowment is a perpetual source of support for the University's teaching and research. As the University's largest financial asset, endowment returns enable leading financial aid programs, critical discoveries in scientific research, and hundreds of professorships across a wide range of academic fields.

HMC's mission is to help ensure that the University has the financial resources to confidently maintain and expand its leadership in teaching and research. We have a long-term investment horizon and strive for successful investment—both now and in the future.