HARVARD ENDOWMENT
NET-ZERO PORTFOLIO COMMITMENT

April 2020

Overview

The President and Fellows of Harvard College, also known as the Harvard Corporation, instructed Harvard Management Company, Inc. (HMC) to set the Harvard endowment on a path to achieve net-zero greenhouse gas (GHG) emissions by 2050. This pledge is a first among higher education endowments and a natural extension of Harvard's ongoing efforts—through its teaching, research, and operations—to prepare for and accelerate the necessary transition to a fossil fuel-free economy.

Below, we detail this commitment, provide the rationale for this decision, describe the path to achieving this pledge, and identify aligned organizations with whom HMC will collaborate throughout this critical transition.

Our Commitment

Recognizing the existential threat of climate change, as well as the urgent need to take immediate action, HMC commits to:

- Transition the Harvard University endowment to net-zero GHG emissions by 2050 consistent with the stated goals of the Paris Agreement;
- Achieve this goal by taking into account the best available scientific knowledge, using standards set by the United Nations' Intergovernmental Panel on Climate Change (IPCC);
- Embed this commitment into HMC's holistic approach to managing sustainability considerations, consistent with its fiduciary duty to manage risks and achieve target investment returns;
- Work with current and prospective asset managers to emphasize GHG emissions reduction outcomes in the real economy; and
- Work collaboratively with peer institutions who have made (or are interested in making) a similar commitment.

Both HMC and Harvard are keenly aware that HMC cannot achieve these commitments in isolation. First, Harvard makes this pledge in support of the stated goals of the Paris Agreement with the expectation that governments will follow through on their own commitments to ensure these objectives are met. Second, HMC will need to collaborate with a range of other institutional investors, asset managers, and corporations. Third, and perhaps most important, a net-zero portfolio, no less a net-zero economy, will ultimately require important scientific advances and structural change in both the economy and consumer behavior.

Beyond Divestment

Harvard's commitment to transition its endowment to net-zero GHG emissions by 2050 transcends the binary divestment debate by focusing on portfolio management—on both the supply and demand side of a fossil fuel-reliant economy—with a clear, intentional effect. This commitment complements

Harvard's extensive work in research and scholarship to address climate risk and represents a critical shift towards a holistic campaign to tackle the root causes of accelerating climate change.

Aligned Organizations

Harvard has identified the following aligned organizations whose work will inform and supplement our efforts to achieve a net-zero GHG emissions portfolio.

Task Force on Climate-related Financial Disclosures (TCFD)

In making this net-zero commitment, the Harvard endowment has also announced its support of enhanced corporate disclosure in line with the final recommendations (June 2017) of the Task Force on Climate-related Financial Disclosures.

In April 2015, the G20 Finance Ministers and Central Bank Governors asked the Financial Stability Board to convene public- and private-sector participants to review how the financial sector can take account of climate-related issues. In response, the industry-led TCFD was formed and charged with developing voluntary and consistent climate-related financial disclosures that could be useful to investors, lenders, and insurance underwriters in understanding material risks.

In June 2017, the TCFD released its Final Report with recommendations for climate-related financial disclosures that are applicable to both financial and non-financial companies across industries and jurisdictions. The recommendations are centered on four thematic areas:

- Governance – disclose the organization's governance around climate-related risks and opportunities
- Strategy – disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material
- Risk Management – disclose how the organization identifies, assesses, and manages climate-related risks
- Metrics and Targets – disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

As of June 2019, over 800 companies, financial institutions, regulatory bodies, and governmental agencies have expressed their support for the TCFD. This includes over 375 financial firms with $118 trillion of assets under management.

United Nations Intergovernmental Panel on Climate Change (IPCC)

The IPCC provides regular assessments of the scientific basis of climate change, its impacts and future risks, and options for adaptation and mitigation.

Created in 1988 by the World Meteorological Organization (WMO) and the United Nations Environment Programme (UNEP), the objective of the IPCC is to provide governments, at all levels, with scientific information that they can use to develop climate policies. IPCC reports are also a key input into international climate change negotiations.

An open and transparent review by experts and governments around the world is an essential part of the IPCC process, to ensure an objective and complete assessment and to reflect a diverse range of views and expertise. Through its assessments, the IPCC identifies the strength of scientific agreement in different areas and indicates where further research is needed. The IPCC does not conduct its own research.

Climate Action 100+

In September 2019, the Harvard endowment joined Climate Action 100+.

Launched in December 2017, Climate Action 100+ is a five-year initiative to engage with the world's largest systemically important greenhouse gas emitters to take critical action to align their own operations with the goals of the Paris Agreement. Currently comprised of over 370 investors with more than $35 trillion in assets under management, Climate Action 100+ is one of the largest investor-driven climate initiatives.

Investors participating in Climate Action 100+ seek three commitments from 161 identified companies:

- Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate risks and responsibilities.
- Take action to reduce GHG emissions across the value chain, consistent with the goal of the Paris Agreement to limit global average temperature increase to well below 2 degrees Celsius above pre-industrial levels.
- Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFG) and, when applicable, sector-specific Global Investor Coalition on Climate Change Investor Expectations on Climate Change guidelines to enable investors to assess the robustness of companies' business plans against a range of climate scenarios and improve investment decision making.

The Path Forward

HMC is currently implementing a five-year transition of its organization and operation, which includes a shift away from internal management of the portfolio and towards using external managers. As a limited partner in funds managed by such external managers, Harvard, by definition and design, has little role in the day-to-day operations of the fund and its investments. By contrast, as a large institutional investor, and a valued thought partner to our external managers, Harvard does have the opportunity to influence our managers' approach to the critical issue of climate risk both at the beginning and throughout the duration of our investment relationship.

Having the vast majority of the endowment managed externally comes with two separate, but related, challenges in executing a net-zero commitment. First, HMC must work closely with individual asset managers to achieve the necessary portfolio transparency. Second, HMC must consider a range of data and methods to create the most accurate picture of the endowment's carbon footprint. Gathering such comprehensive information for the first time will be challenging, and HMC will need to continuously refine and improve this collection and analysis as it works toward a net-zero portfolio.

Net-Zero Commitment

HMC's commitment necessarily comes with important initiatives:

- HMC will determine a methodology for calculating portfolio emissions. We will work with faculty and external experts (focused on the same issues) to determine the most appropriate methodology.
- Over time, HMC will need to gain greater transparency from many investment managers who currently do not provide it. It is possible that we will also use third parties to access and aggregate the portfolios of external managers.
- Having developed and adopted a methodology and having gained the necessary transparency, HMC will apply these to determine the aggregate emissions of the endowment. Once again, working with external managers, other third parties, and the corporations themselves will be critical parts of this initiative.
- HMC will work with investment managers to:
    - Actively engage with their portfolio companies on environmental, social, and governance issues to understand and influence that company's exposure to, and planned mitigation of, climate-related risks;
    - Encourage climate-related financial disclosures from their portfolio companies consistent with the recommendations of the TCFD; and
    - Encourage portfolio companies to develop a credible plan to reduce their GHG emissions, including measurable, science-based targets, consistent with achieving the goals of the Paris Agreement.

HMC is fortunate to collaborate with outstanding external managers, many of whom have partnered with us for a long time. In working with our managers to achieve our goal of net-zero GHG emissions by 2050, we expect our managers to be willing to engage with us in this process and bring a sophisticated approach to thinking about climate risk to the management of their portfolio. HMC further expects its external managers to demonstrate continuous improvement over time consistent with HMC's own interim goals towards net-zero. HMC looks forward to sharing best practices in this area with our external managers.

Interim Goals

Our net-zero GHG emissions commitment will take extensive study, thoughtful deliberation, cooperation with and by a wide range of parties and, most importantly, time. That said, the University's aspiration to achieve a fossil-free future, supported by a net-zero endowment by the year 2050, requires immediate action.

HMC recognizes the critical need to develop and disclose interim goals and progress toward the achievement of those goals to ensure accountability and transparency. Signatories to the Paris Agreement, as well as certain industry-led initiatives, have committed to setting emissions targets for 2025, 2030, and 2040, as well as interim reporting every five years.

HMC will report progress towards the net-zero commitment to the Harvard community annually, with the first report to be released in late 2020. Additionally, HMC will develop specific, interim GHG emissions targets as a path to ensure a net-zero portfolio by 2050.