Our View

Harvard Management Company (HMC) is fortunate to collaborate with outstanding external managers, many of whom we have partnered with for many years. Our partners include both early-stage and established investors, small and large institutions, and incorporate a wide range of mandates—geography, sector, and strategy. In this document, we describe HMC's views on Sustainable Investing and how we engage with our external managers.

HMC's Sustainable Investing program is made up of three components: ESG integration, the Net-Zero Pledge, and advancement of Diversity, Equity, and Inclusion (DEI). 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. To successfully implement our Net-Zero and DEI initiatives, HMC is reliant on our external managers' ability to provide relevant climate and diversity metrics, and willingness to engage in a dialogue on these important topics.

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.

ESG Integration

Harvard University was the first U.S. higher education endowment to become a signatory to the United Nation's sponsored Principles for Responsible Investment (PRI). Accordingly, we are committed to considering environmental, social, and governance (ESG) factors in our investment underwriting and monitoring 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 also something that thoughtful investors should 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. 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.

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.

Diversity, Equity, and Inclusion

Diversity, equity, and inclusion are important issues 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. HMC seeks to partner with managers from a diverse range of backgrounds which strengthens the endowment by bringing different experience, knowledge, innovation, and perspectives. For more information regarding HMC's approach to diversity among asset managers, please see the University's response to a 2020 Congressional inquiry on the topic.

We believe that how an organization approaches diversity matters both in terms of making real progress and attracting the best talent. To that point, we are committed to continuous engagement with our external managers on how they incorporate best practices in their firms and support DEI at portfolio companies. As a member of ILPA's DEI Advisory Council, we encourage participation in ILPA's Diversity in Action (DIA) initiative and recommend the DEI Roadmap as a resource for leading practices. We periodically request diversity-related metrics from our external managers to aid HMC in understanding the demography of the endowment portfolio.

Net Zero by 2050

Climate change is one of the most consequential challenges facing the world today. It is vital for investors to consider energy transition and physical climate-related risks and their effects in their investment processes.

In April 2020, Harvard University instructed HMC to set the Harvard endowment on a path to achieve net-zero greenhouse gas (GHG) emissions by 2050. This commitment was 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.

To measure endowment portfolio emissions and set interim targets, HMC will require emissions-related data from its external managers and relevant third parties. However, we recognize that as a first step, there needs to be an industry-wide consensus on the appropriate methodologies for calculating GHG emissions. HMC is actively engaged with industry participants to address this concern.

Each year HMC updates stakeholders on its net zero work through an annual Climate Report. In addition, we welcome managers to view a series of short videos discussing the net-zero commitment, our early efforts, and reaching our goal.

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 has developed a series of Proxy Voting Guidelines for several environmental and social topics. These Guidelines are available for managers through the University's Shareholder Responsibility Committees' website. While HMC does 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.

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 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.