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Commonfund Study of Responsible Investing

A Survey of
Endowments and Their
Affiliated Foundations

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Contents

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Introduction and Background

This Study analyzes policies, practices and attitudes with respect to responsible investing (as defined on the following page) among 200 U.S. colleges and universities[1], constituting 24.0 percent of the 832 institutions that participated in the 2014 NACUBO-Commonfund Study of Endowments® (NCSE). These respondents, whose chief business officers volunteered to participate in this follow-up Study, comprised 123 private and 77 public institutions with a total of $88.8 billion in endowment assets as of June 30, 2014, or 17.2 percent of the $516.0 billion total included in the NCSE, and encompassed a wide range of endowment sizes and geographic locations across the U.S.

Data-gathering took place in December 2014 and January 2015 using an online survey instrument. We are grateful to our partners at the National Association of College and University Business Officers and The Association of Governing Boards of Universities and Colleges, who assisted in the structuring and sponsorship of this Study. We also owe sincere thanks to the Advisory Board for this Study, who assisted in developing the survey questionnaire, contributed topics and questions, and reviewed the final survey instrument for relevance and accuracy.

England Associates, Inc., our research partner since the inception of Commonfund Institute's benchmarking studies in 2000, provided leadership and project management throughout this Study's design, development, fielding and analysis. The entire England Associates team have our thanks for their continued vision and efforts in creating this valuable tool for our Study participants.

While many surveys on responsible investing have been published in recent years, we believe that this Study is the most comprehensive and detailed such effort to date on this topic among colleges and universities, and are grateful to the professionals at participating institutions who contributed their time and knowledge to its creation.

[1] Eight Canadian institutions also participated in this Study; data for these institutions are included in the separate 2014 NCSE report prepared specifically for the Canadian higher education community.

Responsible Investing Defined

There is not yet a completely standardized vocabulary of responsible investing practices; therefore, to ensure that respondents used reasonably consistent terms when completing the survey, we provided the definitions listed in the box below. For respondents who found that these terms did not accurately or completely describe their institution's current practice, and in recognition of the fluid nature of the current responsible investing environment, we provided opportunities to indicate whether, and how, a particular strategy at their institution differed from the defined terms. Excerpts from these comments are included in this report.

Responsible Investing Practices – Definitions

Socially responsible investing (SRI): A portfolio construction process that attempts to avoid investments in certain stocks or industries through negative screening according to defined ethical guidelines.

Environmental, social and governance (ESG) investing: An investment practice that involves integrating the three ESG factors into fundamental investment analysis to the extent that they are material to investment performance.

Impact investing: Investing in projects, companies, funds, or organizations with the express goal of generating and measuring mission-related social, environmental or economic change alongside financial return.

Divestment of fossil fuels: A type of exclusionary screening strategy through which investors actively exclude companies involved in fossil fuels from their investment portfolio.

Demographics and Analytical Approach

This Study had its origins in the 2014 NCSE, which, like its predecessors, contained an analysis of responses to a suite of general questions about responsible investing practices (excerpts from this section of the NCSE are found in the Appendix to this paper). The purpose of this Study was to inquire more deeply into four specific areas regarding responsible investing:

- Current practices
- Policies and procedures
- Views on responsible investing
- Potential future changes to portfolios

The distribution of participating institutions by endowment size and by the share of endowment dollars represented showed the same general pattern as the NCSE, as shown in the following table:

Comparison of Participants in the 2014 NCSE and 2014 Responsible Investing Study

	Number of Participating Institutions		Percent		Endowment Dollars ($ billions)		Percent	
	NCSE	RI Study	NCSE	RI Study	NCSE	RI Study	NCSE	RI Study
Endowment Size								
Over $1 Billion	91	20	10.9	10.0	$381.6	$54.3	74.0	61.1
$501 Million - $1 Billion	77	22	9.3	11.0	55.2	15.7	10.7	17.7
$101 - $500 Million	262	63	31.5	31.5	60.3	14.7	11.7	16.6
$51 - $100 Million	168	33	20.2	16.5	12.7	2.5	2.4	2.8
$25 - $50 Million	125	30	15.0	15.0	4.6	1.1	0.9	1.3
Under $25 Million	109	32	13.1	16.0	1.6	0.5	0.3	0.5
Total	832	200	100.0	100.0	$516.0	$88.8	100.0	100.0
Type of Institution								
Private	530	123	63.7	61.5	$352.4	$57.5	68.3	64.8
All Publics	302	77	36.3	38.5	163.6	31.3	31.7	35.2
Public Only	78	20	9.4	10.0	88.9	17.8	17.2	20.0
IRFs	170	47	20.4	23.5	34.7	9.1	6.7	10.2
Combined Endowment/ Foundation	54	10	6.5	5.0	40.0	4.4	7.8	5.0
Total	832	200	100.0	100.0	$516.0	$88.8	100.0	100.0

Source: 2014 NACUBO-Commonfund Study of Endowments, 2014 Commonfund Study of Responsible Investing

Of the 200 participating institutions 53, or 26.5 percent, reported that they currently have an investment policy statement that permits or refers to at least one of the responsible investing practices defined in the box on page 2. The first analytical section in this report, therefore, reviews the responsible investing practices of this group of "adopters". The remaining three sections analyze responses from both the 53 adopters and the 147 "non-adopters" – the latter being institutions which, while they do not currently engage in any of the four practices, may have policies and procedures in place that relate to responsible investing, may have views on the topic, or may be considering future changes to their portfolio.

Where relevant to the analysis, these two main participant categories are subdivided further, as in the main NCSE report, into private and public institutions, with the latter category including public college and university endowments, institution-related foundations (IRFs) and combined public college and university endowment/foundations. Of the 200 institutions participating in the Study, 123, or 61.5 percent, are private while 77, or 38.5 percent, are public. These proportions, and those of the subsidiary categories, are roughly similar to those of the main 2014 NCSE, where 63.7 percent of participants are private institutions and 36.3 percent are public.

This differentiation between public and private institutions is important because the adopter group contains proportionately more private than public institutions. Of the 53 adopter institutions, 42, or 79.2 percent, are private and just 11, or 20.8 percent, are public. Conversely, private institutions are less well-represented among the 147 non-adopters, where 81, or just 55.1 percent, are private and 66, or 44.9 percent, are public. The reasons behind this divide may be related to the nature of public institutions and the challenge of formulating policy while honoring an open governance structure. Another reason for the predominance of private institutions among the adopter group may be that responsible investing practices – particularly, but not exclusively, SRI – are long established at faith-based institutions, which are by definition private.

There are, in addition, some notable differences in geographic distribution between the 832 institutions in the main NCSE universe and the 200 that volunteered to participate in this Study, and between the adopter group and this Study's total respondent population. Specifically, while the Northeast and Midwest regions are represented in the same proportions in both the NCSE and this Study, institutions in the South are somewhat underrepresented here and those in the West are somewhat overrepresented. Moreover, adopters are more likely than the general population of this Study to be located in the Midwest and West regions and less likely to be found in the Northeast or, particularly, the South. The sample size is in many cases quite small, particularly for the adopter group, and while it is difficult to draw broad conclusions from

Geographic Distribution of Participants

	(A)	(B)	(C)	(B-A)	(C-B)	(C-A)
numbers in percent (%) **U.S. Census Bureau Region**	**2014 NCSE Participants**	**2014 Responsible Investing Survey Participants**	**Adopters**	**Over- (Under-) representation of NCSE Participants among Responsible Investing Survey Participants**	**Over- (Under-) representation of Adopters among Responsible Investing Survey Participants**	**Over- (Under-) representation of Adopters among NCSE Participants**
Northeast	28	27	21	(1)	(6)	(7)
South	30	24	19	(6)	(5)	(11)
Midwest	26	25	36	(1)	11	10
West	16	24	24	8	0	8

Note: The four regions correspond to the U.S. Census Bureau's classification, as found at https://www.census.gov/geo/maps-data/maps/pdfs/reference/us_regdiv.pdf. Puerto Rico and the U.S. Virgin Islands are not part of any census region or division; for this table we have included them in the South region.

these differences, they reinforce our point that this was a voluntary survey and the respondent group was, therefore, entirely self-selecting. In this regard, although we believe that the results are representative for this group, some caution is warranted in interpreting this information as being representative of the educational sector or the nation as a whole. We would also be remiss if we did not acknowledge the presence throughout this Study of a large proportion of institutions – both adopters and non-adopters – that, in good faith, stand firmly in the middle of the road on many responsible investing topics. These are the respondents who say, for example, that they "neither agree nor disagree" with a given proposition or who, when given a 5-point scale, rate their institution a 3 out of 5 on the question at hand. They are joined by another, frequently substantial, group of respondents who candidly acknowledge that they are unsure of, or do not know, their institution's position.

The existence of these groups, which we will note throughout this analysis, is in our view a sign of the extreme fluidity of the current dialogue about responsible investing. The evolving nature of this dialogue is borne out by the large number of thoughtful comments received in response to our invitation to amplify or add to the answers given by institutions to the questions themselves. The broad range of these comments, and the fact that in almost every case they reveal an active debate taking place within the institution, indicate to us that the field of responsible investing is changing rapidly as boards of trustees and investment committees strive to understand the issues involved in these practices, assimilate them where appropriate to the mission and practice of their own institutions, and determine objective measures whereby success or failure may be discerned.

Executive Summary

The 2014 Commonfund Study of Responsible Investing focused on four approaches to responsible investing: SRI, ESG, impact investing, and divestment of fossil fuels. Responses regarding SRI and ESG were received in sufficient numbers to support a detailed analysis; the number of institutions responding to questions regarding impact investing and divestment of fossil fuels, however, was comparatively low, making it difficult to draw reliable conclusions on these topics. Commentary in the main body of this paper therefore focuses primarily on SRI and ESG, with impact investing and divestment being reviewed in this Executive Summary.

Current Investment Practices

Two hundred U.S. colleges and universities participated in this Study. Fifty-three institutions – the "adopters", or 26.5 percent of the participant group – reported that they have implemented at least one of the four types of responsible investment practice addressed in the Study, while 147 institutions – the "non-adopters" – said they have not. Just over half of the adopters – primarily those using SRI screens – are identifiable as faith-based institutions.

These proportions may be indicative of the current state of responsible investing. An ongoing debate continues about whether responsible investing practices sacrifice potential investment return and are therefore inconsistent with trustees' fiduciary responsibilities. For many faith-based institutions, fiduciary duty is set in balance against – or redefined to include – the moral and ethical values that the institution seeks to advance. It is therefore not unnatural to see such institutions well represented among users of responsible investment practices.

The current state of adoption is reflected in the fact that while 96 percent of Study respondents – both adopters and non-adopters – reported that they have a written investment policy statement, just 28 percent have investment policy statements that refer to one of the four responsible investing practices. Fully 69 percent of this group – and 94 percent of non-adopters – said that their policy neither permits nor refers to one of the four responsible investing practices addressed in the Study, and three percent did not know or were uncertain.

Socially Responsible Investing

Forty participating institutions – one-fifth of the total and just over three-quarters of the adopter group – reported using SRI screens. Nearly two-thirds of this group are faith-based institutions, a testament to the long-standing use of SRI screens among this constituency. Among SRI users, an average of 41 percent of endowment assets were reported as screened, but this activity was far from comprehensive, with 30 percent of institutions screening from 1 to 20 percent of the portfolio by value. The most commonly-cited screens – those used by at least 30 percent of the group of SRI users – were those prohibiting investments related to abortion, alcohol, armaments/weapons, gambling, pornography, tobacco and unfair labor practices.

Environmental, Social and Governance Investing

A smaller group of 17 adopters – around 8.5 percent of total Study participants and just under one-third of the adopter group – reported integrating ESG factors into their investment decision-making. Here, the proportion of faith-based institutions, while substantial, was smaller at 47.1 percent than that using SRI. Among the 17 ESG users, an average of 35.5 percent of endowment assets were managed according to ESG criteria; again, this was primarily concentrated among the 31 percent of ESG adopters that reported managing between 1 and 20 percent of their assets using ESG criteria.

Impact Investing

Low rates of adoption were reported with respect to impact investing and fossil fuel divestment. Impact investing was used by only five institutions – three private and two public – representing 2.5 percent of total respondents and 9.4 percent of adopters. Four of the five reported that they devoted between 1 percent and 20 percent of assets to impact investments. Two activities were cited specifically – community economic development investments and companies serving less-developed or underprivileged communities. Respondents at two of the institutions were uncertain or did not know the types of investments being made.

Divestment of Fossil Fuels

Divestment of fossil fuels, notwithstanding its prominent position in the debate surrounding responsible investing, was reported by only three institutions – two private and one public – representing 1.5 percent of the total respondent group and 5.7 percent of the adopters. Of this group, one institution reported having divested between 1 and 20 percent of total endowment assets, one between 66 and 99 percent, and one responded that they did not know or were uncertain as to the amount divested. Of the two institutions that did know, one said that they had switched their investment to actively-managed long-only strategies that specifically exclude investment in fossil fuel- or carbon-related companies and one said that they had switched to index funds that specifically exclude such companies.

In a related question, no respondents reported using derivatives for protection against potential losses should the assets of fossil fuel companies collapse in value and become so-called "stranded assets" in the event of more stringent regulations in the future. In this regard, the majority of the full group of respondents, including both adopters and non-adopters, reported that they were not concerned or only slightly concerned about exposure to a future collapse in fossil fuel companies' value due to potential carbon regulations. Also among the full group, just two percent of both adopters and non-adopters said that their institution had decided to reduce their portfolio's exposure to fossil fuel companies. Seventy-nine percent had not made this decision; the remainder did not know, were uncertain, or did not answer.

Policies and Procedures Regarding Responsible Investing

Having established a base of current practice, the Study turned next to questions relating to institutional policies on an array of responsible investing topics. In an initial question, when asked if long-term investors have an obligation to consider the impact of investments on future generations, 40 percent of all 200 Study respondents – both adopters and non-adopters – agreed, and 23 percent said they strongly agree. Only a total of 5 percent disagreed or strongly disagreed. Away from these extremes, however, 27 percent of institutions responded that they neither agree nor disagree – evidence of the large middle view on which we have remarked.

This viewpoint was also apparent among the responses to the question of the level of understanding of their board or investment committee of the difference between ESG integration and SRI practices. While 50 percent of Study respondents said that their board and investment or finance committee has a "good" understanding of the difference between ESG integration and SRI practices, 19 percent said they had no understanding, and 23 percent responded that they did not know or were uncertain. Just eight percent said these bodies had a complete understanding.

In a similar vein, 53 percent of Study participants neither agreed nor disagreed with the statement that ESG integration can add value to the investment process, regardless of mission-related concerns. Nineteen percent agreed with the statement, while only eight percent disagreed.

Asked to comment on a list of issues that could constitute "substantial" impediments to greater adoption of ESG integration, 36 percent of the total respondent group cited concern about the possibility of lower investment performance and 15 percent identified concern about violating fiduciary duty. Thirty percent said that lack of transparency due to investment in commingled funds was a substantial impediment, while 27 percent cited the need for more research to determine how ESG integration affects investment returns.

Section I. Current Investment Practices

An institution's investment policy statement (IPS) is perhaps the main foundational document for endowment management. Accordingly, the Study questionnaire first inquired about the existence of a written IPS among participating institutions. Ninety-six percent of all participants – including 98 percent of adopters and 95 percent of non-adopters – confirmed that they had such a written statement.

Sharpening the focus of the inquiry, the Study then asked whether the IPS permits or refers to specific types of responsible investing practices.

Of the four approaches to responsible investing covered by the Study, SRI was clearly the most commonly used, with ESG a significant but distant second, while the use of impact investing and divestment was negligible. Among all responding institutions, 21 percent said their IPS permits or refers to SRI; 8 percent said it permits or refers to ESG; 3 percent specifically cited impact investing; and 2 percent said the IPS addresses divestment of fossil fuels. By far the largest proportion, 69 percent, said that their IPS neither permits nor refers to any of the four. This group consisted of a single adopter institution and nearly all the non-adopters.

Among adopters 40 institutions, or 77 percent, reported that their IPS permits or refers to SRI, while 17 institutions, or 31 percent, said that it permits or refers to ESG. For impact investing and divestment of fossil fuels, 10 percent and six percent of adopters, respectively, said that their IPS cited these practices. Nearly twice the proportion of private institutions referred to SRI in their IPS, at 85 percent, as public institutions, at 45 percent. For ESG integration, by contrast, public institutions were somewhat more likely to refer to this practice in their IPS, at 36 percent, compared with 29 percent of private institutions' statements. Among non-adopters, 94 percent of all respondents said their IPS permits or refers to none of the four approaches.

The presence of faith-based institutions among the adopter group was pronounced, with 27 of the 53 adopters, or 51 percent, identifiable as faith-based. Among this group, 25 of the 27 were users of SRI, constituting 63 percent of SRI users and serving as evidence of the continuation of a practice long associated with the expression of institution's moral and ethical standards. With respect to ESG, on the other hand, faith-based institutions were less well-represented than they were among the general adopter group, at eight of the 17 institutions using this practice, or 43 percent. Six of these eight also use SRI.

Current Investment Practices

*Investment policy statement permits or refers to:**

numbers in percent (%)	Total Institutions	ADOPTERS Total	ADOPTERS Private	ADOPTERS Public	NON-ADOPTERS Total	NON-ADOPTERS Private	NON-ADOPTERS Public
Responding institutions	191	52	41	11	139	77	62
Socially responsible investing (SRI)	21	77	85	45	0	0	0
Environmental, social and governance (ESG) investing	8	31	29	36	0	0	0
Impact investing	3	10	7	18	0	0	0
Divestment from fossil fuels	2	6	5	9	0	0	0
None of the above	69	2	0	9	94	92	97
Don't know/uncertain	3	0	0	0	4	5	3

* Multiple responses allowed

Focusing on the practice of SRI and the use of screens—perhaps the responsible investing practice that has been in relatively wide use for the longest period of time—an average of 41 percent of the adopter group's endowment assets were managed using such screens, with private institutions employing them at a significantly higher rate than public institutions. Thirty percent of adopters reported that between 1 and 20 percent of their endowment assets were managed using this approach. Thirteen percent reported that 21 to 40 percent of endowment assets were managed in this way; 10 percent said 41 to 60 percent of endowment assets were managed using screens; and three percent reported that 61 to 99 percent of assets were so managed. A further 15 percent said that 100 percent of their endowment assets were so managed. Twenty-eight percent said that they did not know or were uncertain.

Turning to the specific negative screens used, 50 percent of adopters reported that they screen out investments in companies related to tobacco and pornography, followed by those involved with abortion and armaments/ weapons, each of which is screened by 40 percent of adopters. Thirty-three percent said that they screen out investments related to gambling, while alcohol and unfair labor practices are each screened by 30 percent of adopters. Twenty-five percent screen out investments related to birth control and 23 percent screen out those involving poor environmental protection compliance.

Focusing next on the practice of ESG among adopter institutions, an average of 36 percent of endowment assets were reported as being managed using practices that seek to integrate ESG criteria. As with institutions implementing SRI, those using ESG criteria were much more likely to be private than public. Integration of ESG criteria, too, was not uniform; 31 percent of total Study participants said that between 1 and 20 percent of endowment assets were managed using this approach, while 12 percent reported that 21 to 60 percent were so managed. Nineteen percent said that a larger share of endowment assets, 61 to 99 percent, was managed using ESG criteria. Thirty-eight percent said that they did not know or were uncertain.

Section II. Policies and Procedures

Having reviewed current practices, the Study questionnaire next turned to matters more closely related to the relationship between responsible investing practices and governance. As an initial question, when asked if long-term investors have an obligation to consider the impact of investment decisions on future generations, 40 percent of all Study respondents said that they agreed, and 23 percent said they strongly agree (see the table on page 10). Only two percent said they strongly disagree and another three percent said they disagreed. Twenty-six percent of all Study respondents neither agreed nor disagreed. On a scale of 1 to 5, with 5 being the highest ("strongly agree"), the average of all responses was 3.8.[2]

Points of view on this question varied widely between adopters and non-adopters, but not always in stereotypical ways. For example, as might be expected, 55 percent of adopters agreed with the statement versus 34 percent of non-adopters, and all of those disagreeing or strongly disagreeing with the statement came from the non-adopters group. Yet, a somewhat higher proportion of non-adopters said that they strongly agreed with the statement, at 24 percent versus 19 percent for the adopters. And while 17 percent of adopters neither agreed nor disagreed, 30 percent of non-adopters took this neutral stance. On average, the adopters averaged 4.0 on the 1 to 5 scale, just 0.2 points more favorable than the non-adopters.

Turning to governance matters, when asked about which entity at their institution develops and oversees responsible investing policy, 83 percent of all Study respondents identified the investment or finance committee and 52 percent cited the board. There was very little difference between adopters and non-adopters on this matter: among adopters, the respective figures were 81 percent and 55 percent, respectively, and among non-adopters, they were 83 percent and 50 percent. After these bodies, the investment staff was cited by 36 percent of all Study participants, 47 percent of adopters and 32 percent of non-adopters.

[2] Throughout the paper, responses to certain questions are reported on a five-point scale. In those instances, 1 = strongly disagree; 2 = disagree; 3 = neither agree nor disagree; 4 = agree; and 5 = strongly agree. In other instances, the scale may measure the "likelihood" of taking an action, i.e., 1 = very unlikely and 5 = very likely.

When asked about the level of board engagement with or education about responsible investing, 58 percent of all Study respondents said that their board members had "some". Twenty percent said their board had "substantial" involvement while 16 percent responded that it had "none." Unsurprisingly, a higher proportion of adopters, at 25 percent, replied that their board members had a "substantial" level of engagement compared to 18 percent of non-adopters. Similarly, just two percent of adopters said the board has no involvement, while this response was 20 percent among non-adopters. Seventy percent of adopters replied that the board had "some" involvement, a rate that fell to 54 percent among non-adopters.

Regarding board engagement, a number of institutions offered comments revealing the state of evolution of their governance process.

- *A public university on the West Coast commented, "Our board is engaged in the conversation about ESG. The level of commitment and consideration related to implementation is still under review. Further education about options and outcomes in this area would be helpful in their deliberations."*

- *A public university foundation in the East said, "Our investment committee has given little or no consideration to any responsible investing factors. Our entire portfolio is passively invested and details of individual underlying investments are not considered."*

- *A private university on the West Coast said, "Neither our investment committee nor any of our trustees has expressed any interest in or concern about this matter. Because of this survey, I may bring this matter to the attention of the chair for possible discussion at a future committee meeting."*

Some institutions, instead of or in addition to engaging in responsible investing practices, have taken steps to reduce energy consumption on their campuses. In this regard, when asked if the board had approved a written sustainability strategy governing the use of natural and environmental resources by their institution, 13 percent of adopters and 10 percent of non-adopters, answered in the affirmative. These "yes" response rates were surprisingly close, suggesting that even among those institutions that choose not to pursue responsible investing the idea of sustainability on campus has some attractiveness. The practice, however, is far from widespread, since 72 percent of adopters and 78 percent of non-adopters said that they had not approved a sustainability strategy.

Policies and Procedures

Long-term investors have an obligation to consider impact of their current investments on future generations

numbers in percent (%)	Total Institutions	ADOPTERS Total	ADOPTERS Private	ADOPTERS Public	NON-ADOPTERS Total	NON-ADOPTERS Private	NON-ADOPTERS Public
	200	53	42	11	147	81	66
Strongly disagree	2	0	0	0	3	2	3
Disagree	3	0	0	0	3	4	3
Neither agree nor disagree	26	17	17	18	30	27	33
Agree	40	55	57	46	34	29	41
Strongly agree	23	19	19	18	25	32	15
Don't know/uncertain	2	2	2	0	2	4	0
Did not answer	4	7	5	18	3	2	5
Average	3.8	4.0	4.0	4.0	3.8	3.9	3.7

A number of national and global groups exist to promote responsible investing among institutional investors, some of which are open to investment management firms as well as to asset owners. In response to a question about the level of importance that Study participants attach to their investment managers' involvement in sustainability-oriented groups, 62 percent of the total group said that it was unimportant. Twelve percent said that such involvement was somewhat important; one percent said it was very important; 24 percent did not know or were uncertain; and one percent did not answer. Predictably, non-adopters considered membership less important, at 64 percent, than adopters, at 55 percent.

When asked about the importance to their institution's hiring decisions of managers' membership in specific sustainability-related organizations, among the smaller group of 26 institutions that considered membership in such organizations to be somewhat important or very important a majority cited the UN Principles for Responsible Investment (PRI). Less than one-quarter cited the Carbon Disclosure Project, and even smaller proportions cited Ceres, the UN Global Compact and the Forum for Sustainable and Responsible Investing. Response patterns were similar among both adopters and non-adopters.

The Study questionnaire then turned to the question of proxy voting, a well-established method for institutions to raise specific responsible investing issues. When asked whether their institution had a proxy voting policy, different response patterns were observed between adopters and non-adopters (see the table below). Overall among Study respondents, 26 percent said that their institution had a policy and 61 percent said that it did not. Among adopters, these two groups were more evenly divided than might be expected, with 45 percent responding yes and 44 percent responding no. For non-adopters, the difference was much more pronounced, at 19 percent and 67 percent, respectively.

When asked how their proxy voting policy was developed, 60 percent of the total respondent group said that their policy was written internally while 30 percent responded that it was written in concert with external service providers, a pattern observed among both adopters and non-adopters. Public institutions were more likely to have written their policy internally than private institutions.

Moving to the question of what activist investing practices are pursued through the proxy voting process, when asked how they engage with portfolio companies, adopters and non-adopters reported using very different approaches. As a general matter, the most frequently-cited practices among adopters were instructing direct managers to vote the proxies in a specific way, participating in consortia engaging in various proxy-related activities and filing direct shareholder resolutions. Among non-adopters, while the first two of these practices were also in the lead, also important was simply delegating the proxy decision to managers, while only seven percent engaged in filing direct shareholder resolutions.

Policies and Procedures

Institution has proxy voting policy

numbers in percent (%)	Total Institutions	ADOPTERS Total	ADOPTERS Private	ADOPTERS Public	NON-ADOPTERS Total	NON-ADOPTERS Private	NON-ADOPTERS Public
	200	53	42	11	147	81	66
Yes	26	45	48	36	19	22	15
No	61	44	40	55	67	64	71
Don't know/uncertain	12	11	12	9	12	13	11
Did not answer	1	0	0	0	2	1	3

The proxy voting practice elicited a number of relevant and thoughtful comments:

- *A private university in the Midwest commented that it "instructs managers to vote proxies in the 'best economic interests of the portfolio ... (we) recognize ... as a long-term shareholder ... that a record of social responsibility may enhance a company's ... economic performance.'"*
- *A state university foundation on the West Coast said, "Investment managers have the sole and exclusive right to vote any and all proxies solicited in connection with securities held by the foundation."*
- *A private college in the Northwest has assigned proxy voting responsibility to its Sustainability Council.*

And, while many Study participants indicated that these institutions delegated proxy voting to their investment managers, a few indicated that some proxies are voted internally:

- *A public university in the Mid-South provided an excerpt from its Endowment Investment Policy: "The committee delegates full authority for proxy voting to its investment managers for the securities under their discretionary authority and requires the investment managers to vote all proxies in the best interest of the endowment. In addition, when requested, the managers will report to the committee on their proxy-voting policies and activities on the endowment's behalf ... Proxy voting related to governance issues regarding investment managers hired to manage endowment assets, and their related investment legal structures, terms and conditions, will be voted on by the staff in the best economic interest of the endowment ... The staff may solicit assistance of the consultant on governance issues."*

With respect to other activist investing practices beyond proxy voting, the level of reported activity was quite low. Among total Study respondents, just four percent reported that they engage in activist investing policies related to responsible investing, while 91 percent said they did not. A similar pattern held for both adopters and non-adopters.

Section III. Views on Responsible Investing

This section of the Study questionnaire investigated the opinions of both adopter and non-adopter institutions with respect to various issues surrounding responsible investing. As more widespread attention is being paid to these policies and practices, it is to be expected that views on them would cover a wide spectrum.

We have remarked that definitions in the responsible investing area have not yet been standardized and that there is, as a result, some vagueness in the minds of many as to what is involved in the various responsible investing practices. This is particularly true when it comes to the difference between SRI, which relies primarily on the exclusion of investments based on an institution's moral or ethical standards, and ESG, which seeks to include investments with certain specific desirable characteristics. When asked to assess the degree of their board's or investment/ finance committee's understanding of the distinction between ESG integration and SRI practices, half of all Study respondents replied that they had a "good" understanding (see the table on the following page). But nearly one-fifth, or 18 percent, said that their board or committee had no understanding. A relatively low eight percent said they had a complete understanding, while 23 percent did not know or were uncertain. Among adopter institutions, the proportion having good understanding was higher, at 57 percent, and that having complete understanding was also higher at 13 percent. For non-adopter institutions, the proportion of boards and committees with good understanding fell to 48 percent, while those with complete understanding declined to six percent, less than half the rate among adopter institutions. Even among adopters, 13 percent said that their board or committee had no understanding and 17 percent did not know or were uncertain, while among non-adopters, the proportion with no understanding was 20 percent while don't know/uncertain responses rose to 25 percent.

Views on Responsible Investing

Board and Investment or Finance Committee understanding of distinction between ESG integration and SRI practices

numbers in percent (%)	Total Institutions	ADOPTERS Total	ADOPTERS Private	ADOPTERS Public	NON-ADOPTERS Total	NON-ADOPTERS Private	NON-ADOPTERS Public
	200	53	42	11	147	81	66
No understanding	18	13	14	9	20	20	21
Good understanding	50	57	58	55	48	49	45
Complete understanding	8	13	14	9	6	9	3
Don't know/uncertain	23	17	14	27	25	22	29
Did not answer	1	0	0	0	1	0	2

Delving more deeply into the question of institutions' understanding of ESG practices, among total Study respondents, 48 percent said that their board or finance/ investment committee had a good understanding of the meaning and consequences of integrating ESG practices into their portfolio. Seven percent replied that they had a complete understanding. But a combined total of 45 percent said they had no understanding, did not know or were uncertain. As might be anticipated, the level of understanding was generally higher among adopter than non-adopter institutions.

A key point in the debate surrounding the integration of ESG factors into the investment process is whether it can add value to an investment process regardless of mission-related reasons. More than half of total Study respondents neither agreed nor disagreed with this proposition, and another 16 percent responded that they did not know or were uncertain. A combined total of 21 percent agreed or strongly agreed, while a combined total of 10 percent disagreed or strongly disagreed. Taken as a whole, the average response on a scale of 1 to 5 (1 being strongly disagree and 5 being strongly agree) was very close to the mid-range value at 3.1. Perhaps more significant, the difference between the responses of adopters and those of non-adopters was not large; the average among adopters was 3.3 and among non-adopters it was 3.1. In this regard, the evolution of thought among educational institutions in general with regard to the effects and benefits of ESG integration appears to be in a transitional phase, with around half of both adopters and non-adopters having developed views while the other half remain undecided.

As if in confirmation of this thesis, when asked which of the three ESG factors have the most impact on the relationship between portfolio risk and return, the largest single response was from the 28 percent of institutions that said all three were equally important while a large proportion, 42 percent, said they did not know or were uncertain. Among adopters, the share of respondents citing all three factors rose to 38 percent while among non-adopters it declined to 24 percent. A similarly lopsided division, in reverse, was observed for the don't know/uncertain group; only 25 percent of adopters were of no opinion, while 48 percent of non-adopters gave this response. Of those institutions that did cite specific factors as having the most impact, 21 percent overall mentioned governance, 11 percent said that environmental factors were more important and six percent cited social factors, with relatively small differences between the adopter and non-adopter groups.

One of the more urgent issues confronting those trying to develop their integration of ESG factors is the relative dearth of reliable metrics by which to measure progress. In this regard, the Study questionnaire inquired into the use of third-party research providers to support measurement of ESG factors. The two firms most widely cited, by 11 percent and nine percent of institutions respectively, were Bloomberg and MSCI, but by far the majority of institutions responded that they used no provider, did not know or were uncertain – another indication of the relatively immature stage of the evolution of ESG evaluation metrics at the current time.

In recent years, a number of academic studies have reviewed the performance of portfolios that integrate ESG factors.[3] When asked their view about whether these studies have been generally supportive of ESG integration, the vast majority of Study participants – a combined total of 74 percent – responded that in their view the studies have shown no clear trend of over/underperformance, or that they did not know or were uncertain. Twelve percent thought that the studies showed that ESG portfolios performed about the same, while seven percent said the studies showed they performed better and an equal percentage said they were shown to have performed worse. Non-adopters were more likely to view these studies as having shown ESG in a negative light or to have no opinion on the matter.

One of the main claims of the proponents of responsible investing is that it can aid in achieving both investment-related and mission-related objectives. When asked if responsible investing considerations help in achieving a range of such objectives, Study respondents were generally neutral to slightly positive (see the table below). On a scale of 1 to 5 (1 being strongly disagree, 5 being strongly agree and 3 being neither agree nor disagree), the average responses for total Study respondents, adopters and non-adopters were closely grouped.

Clearly, respondents felt most strongly about the potential for responsible investing practices to further institutional mission and had a somewhat lower degree of conviction regarding the potential of such practices to contribute to investment performance, decrease volatility and management of portfolio risk. Adopters were generally more favorably disposed toward responsible investing than non-adopters, but surprisingly large proportions of both groups – in the 40 percent to 50 percent range – were to be found in the "neither agree nor disagree" group, with the exception of the proposition relating to forwarding of institutional mission, where both groups had large contingents in the "agree" category.

Integration of ESG factors into an institution's investment process requires measurement against specific goals and is not, therefore, a trivial matter. In the next suite of questions, the Study sought to provide insight into issues that represent impediments to ESG integration. This inquiry probed seven areas (plus "other") that represented potential impediments; here we focus on the responses that identified a given issue as a "moderate" or "substantial" impediment (see the table on page 15).

Integration of responsible investing considerations helps in achieving the following objectives

	Total Institutions	Adopters	Non-adopters
Further institutional mission	3.6	3.9	3.4
Improve investment performance	2.8	3.0	2.8
Decrease volatility	2.8	2.9	2.8
Manage portfolio risk	2.9	2.9	2.9

[3] For a review of some of these studies, see Caplan, Griswold and Jarvis, "From SRI to ESG: The Changing World of Responsible Investing" (Commonfund Institute, 2013).

Views on Responsible Investing

Issues representing substantial or moderate impediments to implementing ESG integration

numbers in percent (%)	Total Institutions	ADOPTERS Total	ADOPTERS Private	ADOPTERS Public	NON-ADOPTERS Total	NON-ADOPTERS Private	NON-ADOPTERS Public
	200	53	42	11	147	81	66
Substantial impediment							
Concern about violating fiduciary duty	15	9	7	18	17	16	18
Concern about the possibility of lower investment performance	36	36	40	18	36	35	38
Need for more research to determine how ESG integration affects investment returns	27	36	36	36	24	25	23
Finding managers that integrate ESG	22	28	29	27	19	21	17
Lack of transparency due to investment in commingled funds	30	51	55	36	22	22	23
Lack of interest	13	6	7	0	16	15	17
Lack of understanding among key decision makers	11	9	10	9	12	12	11
Other	2	4	5	0	1	0	3
Moderate impediment							
Concern about violating fiduciary duty	47	43	52	9	48	43	53
Concern about the possibility of lower investment performance	43	45	48	36	41	41	42
Need for more research to determine how ESG integration affects investment returns	44	38	43	18	46	40	55
Finding managers that integrate ESG	44	43	52	9	44	36	53
Lack of transparency due to investment in commingled funds	36	32	33	27	37	37	36
Lack of interest	34	34	40	9	34	30	39
Lack of understanding among key decision makers	31	28	31	18	31	27	36
Other	1	0	0	0	1	0	2
Averages *							
Concern about violating fiduciary duty	1.9	1.7	1.7	1.8	2.0	2.0	2.1
Concern about the possibility of lower investment performance	2.4	2.3	2.4	2.1	2.4	2.4	2.4
Need for more research to determine how ESG integration affects investment returns	2.2	2.3	2.3	2.4	2.2	2.2	2.2
Finding managers that integrate ESG	2.1	2.2	2.2	2.2	2.1	2.1	2.0
Lack of transparency due to investment in commingled funds	2.2	2.5	2.5	2.4	2.0	2.0	2.0
Lack of interest	1.7	1.5	1.6	1.1	1.8	1.7	1.9
Lack of understanding among key decision makers	1.7	1.6	1.6	1.7	1.7	1.7	1.7
Other	2.2	2.5	2.5	2.4	2.0	2.0	2.0

*** No impediment = (1), Moderate impediment = (2), Substantial impediment = (3)**

Across the seven areas, the proportion of total Study respondents that saw each issue as a moderate impediment was larger than the group that saw it as a substantial impediment. But perhaps evidencing the continuing fluidity of thought in the ESG area, there was considerable variation between adopters and non-adopters in the degree to which they felt a given issue to be an obstacle. In some instances, the proportion of non-adopters viewing a given issue as a substantial impediment was smaller than that of the adopters, and non-adopters' views of the areas they cited as moderate impediments were only slightly more negative than those of adopters.

For example, among the total respondent group as well as both adopters and non-adopters, one of the areas most widely viewed as a substantial impediment was concern about the possibility of lower investment performance. Thirty-six percent of respondents in each of these three groups held this view. The next most-cited issue among the "substantial" group was lack of transparency due to investments in commingled funds. Here, 30 percent of Study respondents cited this as a substantial impediment but it was chosen by 51 percent of adopters and only 22 percent of non-adopters. (It is possible that the adopters' responses were the result of their experience with commingled ESG funds, which the non-adopters obviously had not had.)

Highly relevant to both adopters and potentially interested non-adopters were the related issues of finding managers that integrate ESG considerations and the need for more research to determine how ESG integration affects investment returns. Here, a range of between 19 and 36 percent of adopters and non-adopters agreed that these two issues were substantial impediments to ESG integration.

Less frequently cited as substantial impediments were lack of interest (13 percent of total Study respondents, six percent of adopters and 16 percent of non-adopters) and lack of understanding among key decision-makers (11 percent of all Study participants, nine percent of adopters and 12 percent of non-adopters).

Turning to the issues identified as moderate impediments, four were cited by between 43 percent and 47 percent of all Study respondents. They were concern about violating fiduciary duty; need for more research to determine how ESG integration affects investment returns; finding managers that integrate ESG; and concern about the possibility of lower investment performance. Overall, adopters were somewhat less likely to view these as impediments, most notably the need for more research to determine how ESG integration affects investment returns.

For this question, responses were also averaged on a scale of 1 to 3, where 1 was no impediment, 2 was a moderate impediment and 3 was a substantial impediment. Using this methodology, the greatest impediment, with an average of 2.4, was concern about the possibility of lower investment performance. This was closely followed by lack of transparency in commingled funds, the need for more research and the difficulty of finding managers, where the averages ranged from 2.4 to 2.2. Concern about violating fiduciary duty followed at 1.9, and lack of interest and lack of understanding among key decision-makers were ranked as least likely to be moderate impediments, with identical averages of 1.7.

There were a number of comments from respondents in this section:

- *A public university foundation on the West Coast identified the "conservative bias of committee members" as an impediment.*

- *A private university in the Northwest cited limits on the time and capacity of its staff as an impediment.*

- *A private college in the Midwest pointed to challenges in defining "what qualifies as 'responsible'."*

- *Another Midwestern foundation cited "Incorporating responsible investing principles into organizational values and defining a coherent ESG position."*

For some institutions, the governance questions raised by responsible investing issues are viewed as requiring advice from legal counsel. When asked if they had consulted an attorney or other expert about responsible investing, 10 percent of the total respondent group reported that they had while 78 percent replied that they had not. Among the adopter group, the proportion seeking advice from counsel was slightly higher, at 13 percent, versus nine percent of non-adopters. There was also a substantial difference between adopters at public institutions, where 27 percent had consulted an advisor, compared with 10 percent of private institutions.

As a follow-up to this question, the Study questionnaire inquired about whether a conclusion had been reached – with or without the benefit of counsel – as to whether responsible investing practices are consistent with fiduciary duty. It is apparent that the issue remains quite open, with 56 percent of respondents saying that they did not know or were uncertain how the matter stands and a further 10 percent not answering the question. Just nine percent of all Study participants said that they had reached the conclusion that responsible investing practices are consistent with fiduciary duty, with 15 percent of adopters having reached this conclusion compared with six percent of non-adopters. Three percent – all non-adopters – said they have concluded that responsible investment practices are not consistent with fiduciary duty. Interestingly, 22 percent of the total respondent group replied that they were still debating the issue, divided between 13 percent of adopters, predominantly at public institutions, and a surprisingly high 25 percent of non-adopters, more evenly divided between private and public, who, while not having decided yet, are plainly engaging the topic in a substantive manner.

Section IV.
Potential Changes to Portfolios

In this, the final section, the Study questionnaire turned to potential future activities and policies, asking whether participating institutions were considering further implementation of responsible investing practices for their portfolios. While nearly one-quarter (23 percent) of adopters responded in the affirmative, only 13 percent of non-adopters did, for an overall "yes" response of 16 percent. Of the remainder, nearly half (45 percent) of all Study respondents said that they were not planning to take further action – nearly evenly divided between adopters and non-adopters – while a further 31 percent, again relatively evenly split, did not know or were uncertain. Eight percent did not answer the question.

We next probed the likelihood of institutions' increasing their investments over the next five years in companies specifically involved with a number of various environmental and social activities (see the table below). Using a five-point scale—from 1, or "very unlikely," to 5, or "very likely," with 3 being "neither likely nor unlikely"— respondents overall appeared to be relatively open to investing in the enumerated areas. The highest average scores among all Study participants were 3.4, for investments in companies involved with renewable energy, and 3.3, for those involved with energy efficiency. Averages of 3.2 were observed for firms involved with less water-intensive operations, efficiency in transportation and sustainable business practices. The lowest average score, of 3.0, went to companies involved with community economic development programs.

When the data are analyzed among adopters and non-adopters, the areas that ranked highest among the entire group of Study participants— renewable energy and energy efficiency—ranked highest once again, with the exception of sustainable business practices, which averaged 3.4 among adopters. Once again, no area averaged less than 3.0. When viewed among private and public respondents, both adopters and non-adopters, differences in averages on the five-point scale were minimal.

Focusing on the specific investments with the highest averages, 25 percent of all Study respondents reported that they are "likely" or "very likely" to invest in energy efficiency-related companies over the next five years. Within this group, 32 percent of adopters said that they are "likely" to invest, but none said that an investment is "very likely". With respect to non-adopters, 21 percent said that they are "likely" or "very likely" to invest in energy efficiency.

Turning to investments relating to renewable energy, 25 percent of all Study respondents reported that they are "likely" or "very likely" to invest in this area over the next five years. This total was higher, at 34 percent, among adopters but declined to 21 percent among non-adopters.

A plurality of all Study participants, ranging from 36 percent to 47 percent of institutions, consistently indicated that they were "neither likely nor unlikely" to invest in each of the 10 areas.

Potential Changes to Portfolio

Likelihood of increasing investments over the next 5 years in companies involved with:

numbers in percent (%)	Total Institutions	ADOPTERS Total	ADOPTERS Private	ADOPTERS Public	NON-ADOPTERS Total	NON-ADOPTERS Private	NON-ADOPTERS Public
	200	53	42	11	147	81	66
Energy efficiency	3.3	3.4	3.4	3.4	3.3	3.3	3.4
Renewable energy	3.4	3.5	3.5	3.7	3.3	3.4	3.3
Retrofitting existing power plants to reduce greenhouse gas emissions	3.1	3.1	3.1	3.4	3.1	3.2	3.1
Less water intensive operations	3.2	3.3	3.3	3.4	3.1	3.1	3.1
Drought-resistant agriculture	3.1	3.1	3.1	3.2	3.1	3.1	3.1
Efficiency in transportation	3.2	3.2	3.2	3.2	3.1	3.1	3.2
Waste Management	3.1	3.1	3.1	3.2	3.1	3.1	3.0
Adaptation and resilience to climate change and other environmental factors	3.1	3.2	3.2	3.2	3.1	3.1	3.0
Community economic development programs	3.0	3.1	3.0	3.2	3.0	3.0	3.0
Sustainable business practices	3.2	3.4	3.4	3.4	3.2	3.2	3.1
Other	3.0	3.0	3.0	3.0	3.0	3.0	3.0

Very unlikely = (1), Unlikely = (2), Neither likely nor unlikely = (3), Likely = (4), Very likely = (5)

Section V.
Closing Comments

At the end of the Study questionnaire, we invited respondents to share their overall comments regarding the issues covered in the Study. The responses constituted a rich trove of thoughtful observations on a wide range of responsible investing topics. Here are excerpts from some of them, indicating the lively nature of institutional debate on these subjects at the present time:

- *A private college in the Northeast reported that it has been proposed to create a subcommittee of the investment committee to discuss responsible investing.*

- *A private college in the Southeast said, "An education and due diligence process for the Finance and Investment Committee would be advantageous and is a possibility for the coming period."*

- *A longer comment came from a public university foundation in the Midwest: "Because our governance documents are currently silent on the issue, we are beginning to discuss what values we will define and articulate. This is being done with our related university so that we end with a consistent position. Once the values are defined, then a responsible investing policy statement will be incorporated into our IPS. We are considering the viewpoints of our past, present and future donors in order to hopefully be responsible to past donors and enhance the potential for future donations."*

- *A private university in the Midwest said it is considering impact investing and ESG within segments of its portfolio.*

- *Another Midwestern college said it will form a committee of a broad cross-section of the campus community to consider requests for divestment of specific securities.*

- *A private college in the same region is considering signing the UN Principles for Responsible Investment and "further formalizing our informal incorporation of ESG."*

- *A public institution on the West Coast commented that its "Finance and Investment Committee is being briefed on the topic by both staff and investment managers in the hope of developing a strategy for implementation that meets with committee approval."*

- *An institution in the Midwest said, "We are a small Christian college and our Investment Committee feels that it cannot be the judge of all companies, fund managers or others offering investment advice. We therefore choose not to place any limits on our fund managers other than not to invest in companies or funds that may be in direct violation of our Christian values."*

- *A public university foundation in the Northeast said its board and investment committee are "currently looking into potentially amending its Investment Policy Statement to incorporate ESG factors."*

- *A private university located in a major Northeastern urban center said it is developing a university-wide sustainability strategy that will include a responsible investment plan.*

- *A private university in the Midwest said it is "in the process of amending our Investment Policy Statement, so we will be considering better defining the university's responsible investing practices, including discussing how to implement/monitor/assess such practices."*

- *A private liberal arts college in the Northeast said it is in the initial phase of incorporating responsible investment practices and describes its current situation as: "We have acknowledged that doing so is a 'good idea.' We are endeavoring now to more concretely define how, and based on what criteria that practice will be implemented."*

This state, of evaluating and weighing alternatives for possible implementation, is the situation in which many institutions that commented currently find themselves.

The frankness of some responses was also enlightening and encouraging, particularly given that the Study was undertaken on a voluntary basis. Not all comments were favorable to the concept of responsible investing.

- *A private university in the Southeast commented that responsible investing "seems to be overblown by liberals trying to attack conservative institutions … As we understand the statistics, there is not a long-term record that demonstrates modern portfolio theory measurements are enhanced through focused ESG/socially responsible investments … it seems that the presumption in your questions are that in order to be a good fiduciary you would need to have or implement a strategy that is consistent with your questioning. I do not agree with this premise."*
- *Similarly, a public institution in the Southeast said, "These initiatives are not considered whatsoever in our institution and are not likely to be in the future. Investment decisions and social decisions are mutually exclusive in our environment and would seem to create bias, which will inevitably lead to performance declines."*
- *A public university foundation on the West Coast commented, "We may not be the only one surveyed that addresses SRI and ESG in its investment policy yet has made a conscious decision not to employ SRI and ESG screening in our portfolio."*

The area of divestment of fossil fuels, which has been a target of student and other activist groups in recent years, also attracted some specific comments.

- *A private university in the Northeast said, "We currently do not have any ESG or SRI components to our IPS, but we are exploring adding language about both to our IPS, mostly due to a student movement to divest of fossil fuel companies."*
- *Expressing a different philosophy, a private liberal arts university in the Southeast said, "As an organization, we do not hold a negative position toward the use of fossil fuels or the investment in companies that promote or sell fossil fuels. Our concerns in investing are much more concerned with avoiding investments in companies that sell or promote gambling, alcohol or other practices averse to traditional Judeo-Christian values."*
- *A public university foundation in the Middle Atlantic said, "Responsible investing discussions have been limited to addressing the concerns of students who have expressed a desire to the university to divest itself from certain types of energy investments."*

Taken as a whole, this Study reflects a broad range of philosophies, policy approaches, and states of implementation with respect to responsible investing at the participating institutions. We expect this debate to continue and flourish in the coming years.

Appendix

Responsible Investment Practices

Excerpted from the 2014 NACUBO-Commonfund Study of Endowments® (NCSE)

The annual NCSE surveys the investment management and governance practices of U.S. colleges and universities and has long included a suite of questions about responsible investing. The material in this Appendix is excerpted from the responsible investing discussion in the 2014 NCSE. Note that in the NCSE, responses are analyzed by institutions' endowment size, ranging from the largest institutions with endowment assets in excess of $1 billion to those with endowment assets under $25 million. Responses are also sorted by type of institution: private, public, institution-related foundation (IRF) and combined endowment/foundation.

Of the 832 Study participants, 14 percent reported including in their portfolios investments that rank high on ESG criteria. Twenty-five percent exclude or screen out investments that are inconsistent with the institution's mission, while 15 percent allocate a portion of their endowment to investments that further the institution's mission.

When data are viewed by type, private institutions are most likely to include investments ranking high on ESG criteria. Seventeen percent of this cohort reported adhering to this approach, compared with six percent of public institutions, eight percent of IRFs and 11 percent of combined endowment/foundations. Private institutions are also more likely to exclude or screen out investments that are inconsistent with their mission. Thirty percent of private institutions take this approach compared with 19 percent of public institutions, 14 percent of IRFs and 17 percent of combined endowment/foundations. With respect to investments furthering the institution's mission, 18 percent of combined endowment/foundations and 16 percent of private institutions, respectively, employed this practice. Nine percent of public institutions reported doing so as did 12 percent of IRFs.

Asked if their board has decided to exclude responsible investing practices from consideration when managing the endowment, just six percent of participating organizations overall said that was the case; 75 percent said their board has not made such a decision, while 19 percent had no answer or were uncertain. Eight percent of both of the largest size cohorts (endowments with assets over $1 billion and those with assets between $501 million and $1 billion) said their board has decided to exclude responsible investing considerations, a rate that falls to a Study low of 2 percent among institutions with assets under $25 million.

Asked if they were considering changing their investment policy to include ESG integration, seven percent of participating institutions responded affirmatively, while 69 percent said there were not and 24 percent gave no answer or were uncertain. When the data are viewed by size of endowment, six to eight percent of nearly all of the size cohorts said that they were considering changing their investment policy to include ESG integration. When the data are viewed by type of institution, six to eight percent of institutions in the various categories responded that they are considering changing their policy, with the exception of 4 percent among combined endowment/ foundations.

Twenty-six percent of Study respondents said they had met with third-party stakeholders regarding responsible investing considerations; 52 percent reported that they had not and 22 percent gave no answer or were uncertain. This rate is much higher among larger institutions, with 53 percent of institutions with assets over $1 billion reporting having had such meetings. The proportion having such meetings remains above half, at 52 percent, among institutions with assets between $501 million and $1 billion, but drops considerably, to 30 percent, among institutions with assets between $101 and $500 million. It then continues to fall with size cohort to a low of seven percent among institutions with assets below $25 million. The disparity is not as great when the data are viewed by type of institution. Twenty-eight percent of private institutions reported meeting with third-party stakeholders regarding responsible investing compared with 23 percent of public institutions.

Institutions that had meetings with third-party stakeholders were asked about the topics discussed at those meetings. In discussions with students, divestment was discussed at the highest rate, at 69 percent (152 institutions), followed by ESG, at 42 percent (91 responses) and SRI, at 38 percent (83 institutions). (The number of responding institutions is indicated to give a sense of the relatively low sample size; multiple responses were allowed.) Among other constituencies, the rates for all three discussion topics were measurably lower, specifically alumni, employees/faculty, donors and grant-makers.

Eight percent of Study respondents said their managers include investments ranking higher on ESG factors, while 18 percent said their managers exclude undesirable investments inconsistent with the institution's mission. Institutions with assets between $501 million and $1 billion said their managers include investments ranking higher on ESG factors at the highest rate among the six size cohorts, 14 percent. Other categories were in the range of six to 10 percent.

Private institutions included high-ranking ESG investments and excluded investments inconsistent with their mission more frequently than public institutions. Ten percent of private institutions responded affirmatively to the prior mandate versus five percent of public institutions, while 22 percent of private institutions replied positively to excluding investments inconsistent with mission versus 10 percent of public institutions.

Asked if their managers vote proxies consistent with responsible investing practices, nine percent of respondents said proxies are voted consistent with ESG policy and 11 percent said they are voted consistent with SRI policy. Thirteen percent said they are voted consistent with other responsible investing criteria.

Responding to another question, just five percent of Study respondents said that proxy voting was essential in the hiring of investment managers versus 68 percent that said it was not essential and 27 percent that gave no answer or were uncertain. Institutions with assets between $51 and $100 million and those with assets under $25 million responded that proxy voting was important at a higher rate than the other size cohorts.

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Commonfund Institute houses the education and research activities of Commonfund and provides the entire community of long-term investors with investment information and professional development programs. Commonfund Institute is dedicated to the advancement of investment knowledge and the promotion of best practices in financial management. It provides a wide variety of resources, including conferences, seminars and roundtables on topics such as endowments and treasury management; proprietary and third-party research such as the NACUBO–Commonfund Study of Endowments; publications including the Higher Education Price Index (HEPI); and events such as the annual Commonfund Forum and Commonfund Endowment Institute.

About NACUBO

NACUBO is a membership organization representing more than 2,500 colleges, universities and higher education service providers across the country and around the world. NACUBO specifically represents chief business and financial officers through advocacy efforts, community service and professional development activities. The association's mission is to advance the economic viability and business practices of higher education institutions in fulfillment of their academic missions. For more information about NACUBO, please visit www.nacubo.org.

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