

## **Meeting Summary**

### **Advisory Committee on Investment Responsibility**

**Monday, April 9, 2018**

The Advisory Committee on Investment Responsibility (ACIR) met on Monday, April 9, 2018 in room 103A in the Allen Building. The meeting began at 4:00 p.m. with Chair Lawrence Baxter presiding.

ACIR members attending, in addition to the chair, were Tracy Futhey, Bill Hawkins (*by phone*), Sunshine Hillygus, Kushal Kadakia, Ewan Kingston, Ralph McCaughan (*ex-officio–university counsel*), Tori Nevois (*ex officio–deputy treasurer*), Jia Jia Shen, Eric Smith, and Jim Smith. Absent were Jennifer Dimitri (*ex officio–DUMAC*), Scott Gibson, Jeff Howard, Richard Riddell (*ex officio–university secretary*), and Martin Smith.

Also attending was Michele Wittman, executive assistant to the vice president for public affairs and government relations.

Guests who attended as representatives of the Duke Climate Coalition (DCC) were Seaver Wang, Ethan Miller and Maxwell Silverstein.

Chair Baxter thanked all members for taking time to participate in the meeting and welcomed guests from the Duke Climate Coalition. Chair Baxter asked attendees to briefly introduce themselves. The primary purpose of the meeting was to provide an opportunity for the DCC to speak to their memo regarding fossil fuel divestment, and to discuss its contents and recommendations with the ACIR. Discussion proceeded as follows:

#### **1. Introductory**

Chair Baxter provided some background and explanation regarding the memo, *ACIR Report and Recommendations on Fossil Fuels*, since it's submission to President Richard Brodhead by ACIR Chair Jim Cox in 2014. Chair Baxter included further clarification of the charge, responsibilities and limitations of the ACIR in making financial decisions about divestment, as well as the limitations under which influence can be exercised. He explained the difference between direct investments, indirect (fund) investments, and risk management derivatives investments. Baxter explained that the limitations of providing investment information are dictated by confidentiality required by the investment industry and confidentiality agreements entered into by every member of the ACIR. Direct investments are only a very small portion of the total investment portfolio Duke owns and divestment from fossil fuel companies would make only a minor impact. Duke's derivatives investments have no influence at all over the companies. And DUMAC cannot directly influence the choices made by fund managers in Duke's indirect investments. Baxter and other members of the committee were also careful to correct the record relating to assumptions, apparently held by some other

students, concerning Duke's investments in carbon-based companies. Duke's investments in one of the companies protested is a minute fraction of the "45%" asserted to be held by Duke (much less than one percent), for example. This assertion has been made by a group advertising an upcoming wall painting meeting and a march to protest Duke's investments in fossil fuel companies.

Chair Baxter then congratulated the representatives of the Duke Climate Coalition on the thought and work they had put into a memo sent to the ACIR. He invited the attending Coalition members to walk the committee through the main points of the memo.

## **2. Presentation of the memo and discussion**

The representatives of the Duke Climate Coalition (DCC) group; Seaver Wang, Ethan Miller and Maxwell Silverstein; began by thanking the committee for their time and welcomed any comments or questions. The DCC submitted their memo in response to questions they had regarding the 2014 final report on fossil fuels and its recommendations. The group did not agree with the report's conclusions and felt the recommendations made were insufficient. A concern of the DCC is there has been no further engagement or discourse regarding the issue of divestment since 2014. It was suggested to hold public meetings and discussions on this issue on a regular basis not necessarily initiated by ACIR exclusively, but also through students groups and faculty members. There is also a concern about the lack of transparency in finding information on the investments held by Duke University that might be significant in divestment from fossil fuel companies. The DCC included in their memo information on what other institutions have committed to regarding divestment. As far as indirect investments are concerned, the DCC advocated pressuring investment managers to avoid investments with fossil fuel companies. The DCC would, at the very least, like Duke to make a declaration to avoid future investment in fossil fuel companies.

Notwithstanding the limitations described by Chair Baxter under which the ACIR operates, it was agreed that the conversation remain open regarding divestment and it was acknowledged that the ACIR should perform regular review of investments. Duke has committed to becoming carbon neutral by 2024 and great strides have been made to reach that goal, but the DCC views divestment and the 2024 carbon neutral plan as separate. Although it is the view of ACIR that divestment would make a minimal impact, members of the committee said ACIR would be interested in hearing more about what other institutions are doing. In addition, while pressuring fund managers might be difficult and, without further guidance from DUMAC, might even be impossible, Baxter said that companies such as Morgan Stanley are developing mechanisms that assist in evaluating sustainable and alternative energy investment options. DUMAC is exploring these possibilities.

As to direct investments, there was extended discussion on the pros and cons of mandatory divestment. Some concern was expressed by members of the ACIR that we should be careful not to generate unnecessary polarization in an increasingly fractured environment. In order to consider investing in alternate funds, the ACIR would need additional factual data and current information in support of the recommendations suggested by the DCC. The DCC agreed with the ACIR that divestment is a polarizing topic, but they do not believe that taking action through divestment will significantly adversely impact dialogue and discourse.

The ACIR suggested the DCC use caution in making blanket assumptions about all fossil fuel companies as many are making great strides in working to minimize their impact on climate change. The ACIR would like to see additional recent information that shows divestment makes a difference and has an impact, as well as factual data to support a shift in investments to companies with more sustainable and alternative energy business models. Baxter explained that in his own prior experience with extensive business change, it was often necessary to use the revenue generated from dying technologies to fund the emergence of new alternatives. Attention was directed to the investments fossil fuel companies are making that, while relatively small compared to their gross revenues, are very substantial when compared to investments being made by green companies. He noted that one should be careful not to cut off big company investments. The DCC promised to try to obtain some comparative statistics to provide an idea of sizing and relative importance so judgments could be made regarding the significance and effectiveness of potential divestments and any shift in investments that might encourage the development of alternative energy while conforming to DUMAC's Board of Trustee mandate to maximize economic returns. It was acknowledged by the ACIR that divestment could have important symbolic effect, but recommendations regarding symbolic actions needed to be informed by a strong factual basis.

### **3. Next steps**

The DCC and ACIR agreed on next steps to be taken by each group.

#### **The ACIR agreed to:**

- a. Schedule occasional meetings with sufficient regularity to monitor and respond to significant developments. The meetings would be either in general session or, where merited, specifically with the DCC and any other climate-related groups that might have an interest. The intention is to keep the dialogue open on climate, among other issues. It is contemplated that, ideally, such meetings might take place approximately not more than every two months during term, depending on logistics and member availability, or at less frequent intervals where no compelling issues have arisen. In any event the ACIR will always be receptive to well-motivated requests for an ad hoc meeting where unusual circumstances have arisen;
- b. Contact DUMAC for an update on Duke's financial holdings in the foremost 200 publicly traded fossil fuel companies (Carbon Underground 200) and the levels of green energy investments. ACIR will also discuss with DUMAC the options being undertaken and possible additional considerations for identifying funds that accommodate fossil fuel concerns and promote alternative energy investments;
- c. Support the DCC in getting the Duke community involved in a broader conversation about divestment through measures such as helping to sponsor community forums.

**The DCC will:**

- a. Research the investment potential of renewable energy companies and contrast those with traditional fossil fuel companies;
- b. Compare the investment of fossil fuel companies in renewable energy technology relative to other companies and define the impact of such investments on the renewable energy industry;
- c. Meet with the other environmental groups on campus to develop a formal, unified committee to work on the issue of fossil fuel divestment;
- d. Contact Duke's peer institutions which have pledged divestment to gain insight into how they came to this decision, what portions of their endowment they are divesting, and what best practices they can share for economic and social success;
- e. Outline the reasons behind and the process of divestment for presentation to the Duke Student Government, Duke Graduate Student Council, and Academic Council;
- f. Provide a briefing to ACIR about the climate action events taking place on Duke's campus whenever these come to the DCC's notice.

**4. Closed Session Discussion**

Chair Baxter asked the members of the committee to stay for a closed session following adjournment of the meeting.

The chair adjourned the meeting at 5:00 p.m.