

Meeting Summary

Advisory Committee on Investment Responsibility

Monday, April 22, 2019

The Advisory Committee on Investment Responsibility (ACIR) met on Monday, April 22, 2019 in the trustee boardroom of the Allen Building. The meeting began at 2:35 p.m. with Chair Lawrence Baxter presiding.

ACIR members attending, in addition to the chair, were Craig Burnside (*faculty*), Saheel Chodavadia (*student rep.*) Jennifer Dimitri (*DUMAC advisor*), Luke Farrell (*student rep.*), Tracy Futhey (*CTO*), Bill Hawkins (*Trustee, by phone*), Tyler Johnson (*student rep.*), Ewan Kingston (*student rep.*), Chris Lott (*Legal ex-officio*), Tori Nevois (*Treasurer ex officio*), Richard Riddell (*Board of Trustees advisor*), and Martin Smith (*faculty*). Scott Gibson, D. Sunshine Hillygus and Jeff Howard were unable to attend.

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 Ethan Miller, Gabi Richichi and Amanda Padden.

Chair Baxter welcomed and thanked all members for attending. Attendees briefly introduced themselves. Chair Baxter reviewed the agenda and provided background on the creation of the Fossil Fuel Investment Subcommittee (FFI). He provided additional information about the FFI Subcommittee final draft report and how the suggested actions and recommendations came about before discussion and review began by ACIR members. Guests from the Duke Climate Coalition attended the beginning of the meeting until the closed session began.

Review of the Fossil Fuel Subcommittee Draft Final Report. The FFI Subcommittee final draft report recommended against divestiture but provided four other areas in which Duke could make a meaningful impact on the issue of climate change and Green House Gas reductions (GHG)

Recommendation against Divestiture. The FFI Subcommittee concluded that divestment would not be an effective contribution to the reduction of GHG or a productive option for Duke to take for the following reasons:

- a) divestment would have no impact on companies concerned serving only as a symbolic gesture;
- b) there is not sufficient volume to affect stock prices and shares would be quickly bought by others;
- c) dependence on the consumption of fossil fuels would make divestiture a hollow, hypocritically symbolic gesture;
- d) divestiture would be counterproductive and polarizing;
- e) divestment could lead to interference with fund manager relationships;
- f) divestment could set an ambiguous precedent.

The ACIR unanimously agreed with this recommendation and several of the reasons stated above coincide with the conclusion of the 2014 ACIR Report and Recommendations on Fossil Fuels.

Recommendations for Duke University to Use its Investing Power to Help Combat Greenhouse Gases.

The FFI Subcommittee and the ACIR believe that there are other meaningful ways to promote GHG reductions that would draw on the interest, enthusiasm and expertise of the Duke community. Five investment-related options were identified: proxy policy and voting power; Environmental, Social and Governance (ESG) funds as a retirement fund; funding and marketing Duke's Social Choice Fund; support for the Duke Impact Investing Group (DIIG); and a proposed portfolio carbon tax. Each received considerable review by the FFI Subcommittee. Some options are highly tentative and would require

further analysis. The ACIR members discussed each option at length and concluded that any of these would be consistent with Duke's overall commitment to carbon neutrality and support of alternate energies as well as encourage engagement from the entire Duke community to address the cause of detrimental climate change.

- a) **Proxy Policy and Voting** would be limited to only direct investments and could be too restrictive for hired fund managers. This option would go beyond the 2014 ACIR report in that it adds a reporting requirement. DUMAC does not track proxy voting/results currently but could hire an outside agency to do so. Additional exploration and investigation would have to be conducted on the practicality and relevance.
- b) The suggestion to add **ESG Funds** to the menu of retirement options for Duke employees was met with apprehension due to the legality defined by federal law in doing so. Employees can choose ESG funds through a brokerage window provided through Fidelity but Duke cannot pick or market specific funds. Retirement funds cannot be addressed as an option because ERISA governs their selection and the University cannot promote any particular fund.
- c) In 2014, the **Social Choice Fund** was created at the recommendation of the ACIR and could be a way for the Duke community and donors to directly contribute and have an impact. This fund is unendowed and challenged to finding a donor or donors who would activate the fund through a required \$100,000 contribution. The committee discussed possible options with regard to marketing and donor funding and agreed this is a complicated but partially viable option.
- d) The **Duke Impact Investing Group (DIIG)** submitted a proposal on the creation of an "Evergreen Fund" similar to the concept of angel investors where Duke would furnish funds and the DIIG would then make investments with a focus on the energy industry. DUMAC agreed to help manage the funds. Other donors could contribute if Duke gave its stamp of approval and/or was unable to provide funds. This option is in the preliminary stages and would need further investigation to be properly constructed and governed.
- e) A memo from Dr. Marty Smith on the potential for a "**portfolio carbon tax**" was provided to the committee for discussion. A fund would be created from a self-imposed revenue tax on the profits derived from GHG associated investments. This tax would generate money to apply to other funding opportunities. This option could be a way for Duke to flag money it receives from investments and use it to make a positive impact. Before this could become a viable option, extensive research would have to be done and financial and legal issues would need to be reviewed to ensure legality and compliance. All this is dependent on the President's desire to move forward on such an idea. This would be a way for Duke to lead the pack in doing something tangible.

Closed Session. The members of the Duke Climate Coalition (DCC) thanked the ACIR members for their time and departed the meeting. The ACIR then held a closed session to discuss the structure and processes of the ACIR and how it functions within the decision-making process of Duke's investment responsibility concerns.

In conclusion, Chair Baxter thanked all ACIR members in attendance. A draft of the FFI Subcommittee final report with suggested changes incorporated into the draft will be distributed to all ACIR members for final review and comment. The aim is to submit the final report to President Price after commencement.

The meeting was adjourned at 4:20 p.m.

Submitted by Michele Wittman