Advisory Report and Responsible Investment Statement -- DRAFT
Environmental, Social, and Governance Endowment Investment Working Group
Sewanee: The University of the South
July 11, 2025

I. Overview

The Environmental, Social, and Governance Endowment (ESG) Investment Working Group was established with the following charge:

> By May 2025, to produce an advisory report to the administration related to environmental, social, and governance principles and investment of the University's endowment. The report will provide advice on the following matters:
>
> - areas of investment that might be scrutinized with regard to University values and, therefore, warrant monitoring and potentially reduced scope within the investment portfolio, and
>
> - the form of regular reporting by the administration to the University community on the University's endowment performance and allocations

In fulfilment of that charge, the following report:

- Includes a Responsible Investment Statement intended to advise the administration in its work with the Investment Management Committee (IMC) of the Board of Regents (BoR)

- Shares information about the University's current levels of investment in areas of ESG concern

- Recommends specific methods for enacting the principles in the Responsible Investment Statement

- Recommends specific mechanisms for regular reporting on endowment investment to the University community

The working group consists of the Vice-Chancellor, the Treasurer, the Provost, four faculty members (including at least one from the School of Theology), two staff members, and 3 students. The members are:

- Robert Pearigen, Vice-Chancellor
- Doug Williams, Treasurer
- Scott Wilson, Provost
- Kati Curts, Associate Professor of Religion
- Maha Jafri, Associate Professor of English
- Sid Simpson, Assistant Professor of Politics

- Andrew Thompson, Associate Professor of Ethics and Director of the Center for Religion and Environment
- Morgan Jennings, Office of Civic Engagement
- Nathan Wilson, Domain Manager
- Rowland Fournier, Order of the Gown
- Jawaria Jaleel, Student Government Association
- Joseph Rhodes, Student Executive Committee of the Saint Luke's Community (SoT)

II. Responsible Investment Statement

The ESG recommends aligning University endowment investment practices with the following principles:

1. **To reduce investment in companies and sectors which cause grave social injury to human beings**

2. **To reduce investment in companies and sectors which cause substantial environmental harm**

3. **To encourage investment in companies and sectors which promote human dignity and environmental sustainability**

In the context of financial investment, "grave social injury" refers to the excessive or deliberate injurious impact on employees, consumers, and/or other individuals or groups resulting directly from specific actions or inactions by an investment vehicle's management.[1] "Substantial environmental harm" refers to severe, lasting damage to the natural world, including unsustainable practices which result in harm to individuals, communities, ecosystems, and the climate.

In addition to discussions in working group meetings, the ESG working group drew on several sources when developing the principles in the Responsible Investment Statement, including:

- The University Purpose and Position Statement, which outlines Sewanee's mission to "cultivate academic excellence, community values, and environmental stewardship" and to teach students to "live with grace, integrity, and a reverent concern for the world."
- The University Sustainability Statement
- The 2024-2030 University Strategic Plan
- The commitment by the Episcopal Church to socially responsible investing (2023), including portfolio restrictions on companies in the sectors of defense contracting, for-profit prisons, tobacco products, and fossil fuels, as well as companies which support or benefit from the denial of human rights

[1] We have borrowed this definition of "grave social injury" from Macalester's guidelines for investor responsibility. Variations on the term ("social injury," "substantial social injury") and definition appear in responsible investment documents from many universities. A fuller rationale for using "social injury" as the basis for responsible investment appears in the foundational text *The Ethical Investor: Universities and Corporate Responsibility*.

- Approaches to socially responsible investment at other academic institutions, including Carleton College, Hamilton College, the University of Pittsburgh, Earlham College, and Macalester College

The principles in the Responsible Investing Statement are designed to provide ongoing guidance to the administration in its work with the IMC. Specific recommendations for putting these principles into effect are outlined in Part IV of this report.

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The ESG working group respects the role of the BoR in determining University investment strategy. We also recognize that investment of the University endowment is an economically and ethically complex matter which directly affects Sewanee's ability to carry out its educational mission. In our scope as an advisory entity, we offer these recommendations from the premise that the interests of the BoR, the ESG working group, and the broader institution are not only compatible but fundamentally intertwined.

In particular, we are cognizant of the fiduciary responsibility with which the BoR is entrusted. "Fiduciary responsibility" refers to the BoR's obligation to act in the best interests of the University and its stakeholders. In its fiduciary capacity, the BoR has a responsibility to promote the financial well-being of the institution. This obligation includes, but is not limited to, the management of university investments.

Fiduciary responsibility and socially responsible investing are often seen as mutually exclusive. We posit, however, that fiduciary responsibilities do not preclude ESG considerations, for two reasons: 1) because sustainable investing is a sound method for securing the institution's financial future, and 2) because fiduciary responsibilities encompass not only the financial but the reputational and ethical interests of the institution. Loyalty to the university's purpose–particularly its commitment to "community values," "environmental stewardship" and a "reverent concern for the world"–thus constitutes a key area of fiduciary responsibility. Indeed, as demonstrated by the Centre for Fiduciary Excellence (CFE), an independent fiduciary rating and certification agency, socially conscious investing is not only "consistent with" but arguably "required by fiduciary obligations" (5).[2]

In a world menaced by climate crisis, both public and private actors are taking active measures to combat the economic risks of environmental degradation and to disentangle themselves from unsustainable industry practices.[3] In this context, the fossil fuel sector constitutes an increasingly volatile area of financial investment. As the global economy turns toward sustainable and renewable energy, organizations which do *not* adopt ESG investment principles may in fact be putting their beneficiaries at a significant disadvantage. Additionally, as consumers and investors continue to expand their understanding of corporate responsibility to include areas ranging from global military conflict to humane work conditions to diversity of representation on governing boards, an ESG framework promises a dynamic, adaptive approach to endowment investment.

[2] "Socially Responsible Investing: What Fiduciary Boards Need to Know." https://www.cefex.org/downloads/Articles/White_Paper_SRI_CEFEX.pdf

[3] The Partners Capital Sustainable Investing Policy states: "We are in agreement with the scientific community that human activity, most notably the burning of fossil fuels for the production of energy, has caused the atmospheric changes which have led to increased temperatures and the associated effects such as rising sea levels. We believe that accounting for the potential impacts of climate change is an imperative for any long-term investment strategy."

A significant obstacle to adopting ESG principles in endowment management is concern about potential negative financial impact. However, such concerns may be overstated. Academic studies as well as investment firm reports show that, in recent years, "sustainable funds outperform traditional funds,"[4] "that responsible investing would offer returns at least equal to and usually higher than those of other investments,"[5] that "the consideration of corporate social responsibility in stock market portfolios is neither a weakness nor a strength compared with conventional investments,"[6] that "socially responsible investing does not result in lower investment returns,"[7] and that "socially responsible funds are not significantly different from conventional funds with respect to performance."[8] **The ESG approach to responsible investing is designed to promote the institution's ethical as well as its financial interests.**

Finally, from the vantage of admissions and recruitment, an investment strategy which prioritizes social concerns aligns with broader sustainability efforts at Sewanee and positions the institution to attract the current generation of prospective students, many of whom seek to study and work in fields related to the environment, sustainability, and finance. As more colleges adopt socially conscious investment frameworks, Sewanee must orient itself accordingly to remain competitive in the higher education market. To this end, the public-facing dashboard proposed in Part V.3 offers the additional benefit of signaling the University's commitment to social responsibility and sustainability to potential students.

III. Current Practices

Over the course of the semester, the ESG working group has gathered information and context about the University's current investment practices. Relevant insights include:

- 65% of institutions (56% of institutions with endowments the size of Sewanee's) do not have responsible investment statements. Among those which do have statements, most do not include absolute restrictions.
- The University's Ordinances give the BoR responsibility for managing the University endowment. The IMC, a subcommittee of the BoR, works with an Outsourced Chief Investment Officer (OCIO) to manage the University's investments.
- The IMC provides an "Investment Policy Statement" to the OCIO to guide investment strategy. The ESG does not have access to this document.
- In Summer 2024, Sewanee transitioned to a new OCIO, Partners Capital Investment Group.
- Partners Capital hires managers to invest all of its assets, including public equity, private equity, bonds, and other alternative investments.

[4] https://www.morganstanley.com/ideas/sustainable-funds-performance-2023-full-year
[5] https://www.sfl.ca/news-insights/is-socially-responsible-investing-more-profitable
[6] "Financial performance of socially responsible investing (SRI): what have we learned? A meta-analysis"
[7] https://funds.rbcgam.com/_assets-custom/pdf/RBC-GAM-does-SRI-hurt-investment-returns.pdf
[8] Ali Murad Syed, "Socially responsible: Are they profitable?"

- As a matter of general practice, Partners Capital already excludes certain sub-sectors from their public equities portfolios. As of August 2020,[9] Partners Capital has not invested directly in "producers of thermal coal, manufacturers of controversial weapons (including cluster munitions and anti-personnel landmines), tobacco producers and companies engaging in 'payday lending' practices."[10]

- Partners Capital is a signatory to the United Nations Principles for Responsible Investment.

- Partners Capital would not provide a complete list of the companies in the Sewanee portfolio due to proprietary concerns about investment strategy.

- Partners Capital was willing to cross-check Sewanee's investments in publicly-held companies (roughly 70 percent of Sewanee's endowment) against a list of companies specified by the ESG and to calculate the aggregate amount of exposure. (As discussed in Part IV, the ESG used the Episcopal Church's "no-buy" list for this purpose.)

- The remaining 30% of the portfolio consists of private equities, bonds, and fixed-income assets. It is not clear what is included among these investments.

- According to Partners Capital, as of March 2025, funds allocated to companies on the Episcopal Church "no-buy" list account for 0.66% (approximately $3.3 million) of the endowment.

- That 0.66% of the endowment (which is all located in the 70% of the endowment that is publicly traded), is invested by public equity managers and in index funds. In order to eliminate the 0.66% investment in the highlighted companies, Partners Capital would have to change 70% of the investment in funds that comprise the 70% of the publicly traded funds in the endowment, roughly one-half of the endowment's investments. It is not clear whether Partners Capital made these investments or inherited them from our previous OCIO.

- Partners Capital regularly works with clients to customize their investment portfolios according to specific ESG concerns. It is not clear whether, or to what extent, Sewanee has made use of this service.

For various reasons, including intellectual property concerns, university governance structure, and the nature of private equity, there are limitations on the information the ESG working group was able to obtain from the IMC and Partners Capital. That said, additional and ongoing communication of information is crucial to establishing a meaningful ESG framework. The ESG working group is confident that a new monitoring and reporting structure (Part IV.3) can preserve the interests of all parties while ensuring continued progress toward greater transparency.

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[9] Partners Capital Environmental and Social Impact Statement, August 2020
[10] Partners Capital Sustainable Investing Policy, March 2023

IV. Recommendations for Enacting Responsible Investment Statement Principles

The ESG working group has reflected extensively on how most effectively to advance the aim of aligning endowment investment with University values. We recognize that decisions about investment policy fall under the purview of the IMC.

Simultaneously, the task at hand necessarily requires us to think at varying scales of specificity, so as to avoid veering into the unhelpfully abstract or the inflexibly prescriptive. Thus, with the aim of defining the principles in the Responsible Investment Statement as clearly and coherently as possible, we share additional context and practical policy recommendations below.

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ESG working group discussions have frequently considered the relative merits of positive and negative screening practices—whether, that is, to proactively invest in socially and environmentally responsible companies or to divest from socially and environmentally harmful ones. Ultimately, the ESG working group advocates an institutional investment strategy which honors the well-being of individuals, communities, and the environment. Essential to this approach is the refusal to profit from harm. Moreover, the ESG working group believes that pursuit of ESG principles will positively impact the public perception of Sewanee. For these reasons, we recommend **positive *and* negative screening when selecting investments**.

When determining which sectors to recommend restricting, the ESG working group has relied on the Episcopal Church "no-buy list"—which identifies five sectors and provides an extensive catalog of companies within those sectors—as a starting point for our recommendations. We have done so for several reasons, including Sewanee's identity as an Episcopal institution, the specificity of the list, and the sectors identified for exclusion.

There are advantages and disadvantages to using the Episcopal Church list. While it saves the ESG working group the unnecessary task of coming up with its own list of portfolio restrictions from scratch, the list is not exhaustive; further cross-checking against similar lists compiled by other organizations may be warranted. Likewise, the Episcopal Church list omits potential sectors of interest (such as rare earth mining). Additionally, some ESG group members were concerned about the expansiveness of the "human rights" sector, or, conversely, by the specificity of that category's reference to the Occupied Palestinian Territories (given the prevalence of human rights violations in other geographical areas).

Recognizing that no single instrument can be perfectly comprehensive and that areas of concern for socially responsible investing continue to grow and change within domestic and global contexts, the ESG working group has drawn on the Episcopal Church portfolio restrictions list when developing its recommendations, with the understanding that further supplementation or amendment may be needed in the future.

Specific names of companies which meet the criteria found under Principle #1 and Principle #2 can be found in "Companies Subject to No-buy Portfolio Restrictions," approved by the Episcopal Church Executive Council, Domestic & Foreign Missionary Society, and Corporate Social Responsibility Committee in June 2023:

https://www.episcopalchurch.org/wp-content/uploads/2023/10/No-Buy-List-Of-Prohibited-Stocks.pdf

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Principle #1: To reduce investment in companies and sectors which cause grave social injury to human beings

Drawing from the Episcopal Church "no-buy" list, the ESG recommends reducing our shares (including directly held and commingled funds) in the following sectors:

- Corporations which support or benefit from denying basic human rights. Examples include, but are not limited to, weapons manufacturers and defense contractors, such as corporations denying human rights in or through the occupation of the West Bank, East Jerusalem, or the Gaza Strip (the Occupied Palestinian Territories or OPT).[11] The ESG working group additionally recommends restricting investment in companies which benefit from denying basic human rights in the Democratic Republic of Congo, Sudan, Yemen, and other areas of global conflict.
- Any company among the top five U.S. defense contractors, measured in dollar volume of sales
- Any company among the top 50 defense contractors that receives more than fifty percent of its revenue from military contracts[12]
- Companies that operate for-profit prisons
- Companies that derive more than 10% of revenue from the manufacture and sale of tobacco products

Principle #2: To reduce investment in companies and sectors which cause substantial environmental harm

Drawing from the Episcopal Church "no-buy" list, the ESG working group recommends reducing our shares (including directly held and commingled funds) in:

- Companies that derive more than 10% of revenue from fossil fuels

As noted in Part IV, Partners Capital already excludes companies in certain sectors from its direct investments. Notably, though, the firm's Capital Sustainability Charter and Sustainable Investing Policy also emphasize Partners' willingness to further customize "targeted, bespoke responsible investment policies" in line with clients' ESG priorities.[13] This approach encompasses the exclusion of additional sectors: "We [Partners Capital] understand that certain clients, regardless of our firm-wide approach to exclusions, may also seek to exclude additional sectors and/or companies

[11] The ESG working group recognizes that "human rights" is a broad category, and that what qualifies as a denial of human rights might be defined in a number of ways (e.g., state-sponsored violence against civilians, war crimes according to the International Criminal Court, use of specific weapons, etc). Nonetheless, the ESG has chosen to retain this category for a number of reasons, including the context in which the Sewanee ESG was first formulated—namely, in response to campus protests on behalf of Palestine in May 2024. Additionally, should we need to add to this list in the future, this category accommodates companies which do severe harm to human life, but which do not fall under other existing categories.

[12] https://people.defensenews.com/top-100/

[13] Partners Capital, "Capital Sustainability Charter," 1

from the investable universe. In those instances, we will work closely with our clients to design client-specific portfolios in line with those expectations where possible" (4).[14] The ESG working group recommends that the administration work with the IMC and Partners Capital to tailor its investment strategy as fully as possible to conform with ESG principles.

Principle #3: To encourage investment in companies and sectors which promote human dignity and environmental sustainability

The ESG working group additionally encourages investment in companies and sectors which promote the well-being of human beings and the environment. These include firms that promote sustainability, contribute to clean-energy conversion, and limit environmental degradation.[15]

The Partners Capital Sustainable Investing Policy expresses a commitment to considering such concerns when allocating funds: "Alongside investing in asset managers with highly developed ESG integration and stewardship practices, Partners Capital also aims to selectively deploy capital into companies and sectors that have a positive impact on the environment and society whilst generating a competitive financial return. We remain particularly interested in investments which will benefit from and contribute to the sustainability megatrend given our expectation of both the capital requirement to finance these transitions and the associated disruption which we believe will leave few industries unaffected. We rely on the expertise of our dedicated asset class research teams to pursue the most attractive investments in each asset class. For example, in public equities, we have been exploring energy transition long/short strategies that seek to back the future winners of the energy transition whilst simultaneously taking short positions in those companies deemed to be poorly prepared for the transition" (3-4).

Again, the ESG working group recommends that the administration work with the IMC to encourage Partners Capital to tailor its investment strategy as fully as possible to conform with the three pillars of ESG (environmental, social, and governance). The ESG working group recommends that the IMC increase over time the percentage of the total portfolio that is made up of businesses that are ranked as AA or AAA in ESG performance as reported by MSCI.

V. Regular Reporting to the University Community

The ESG working group has been tasked with advising the administration on the reporting of information about endowment investment to the University community. For such reporting to accurately and meaningfully inform stakeholders about the University's efforts to monitor, allocate, and reduce funds in certain sectors, it must account for all University investments and provide relevant context. Accordingly, we recommend **an annual report** which includes the following information:

- a calculation, as percentage of endowment and in real terms, of publicly traded investments in sectors identified by the ESG working group

[14] Partners Capital, "Capital Sustainable Investing Policy," 4

[15] The ESG working group recognizes that there may be a conflict between Principles #2 and #3 insofar as some companies which derive at least 10% of their profits from fossil fuels are simultaneously advancing sustainability goals through the development of green energy. In cases where such a tension arises, the ESG group recommends prioritizing Principle #2.

- a calculation, as percentage of endowment and in real terms, of private equity investments in sectors identified by the ESG working group, including, but not limited to, venture capital, buyouts, real estate investment trusts, real estate holdings, and bequests
- a calculation of revenues from any University real estate holdings which include mineral rights or fossil fuel royalties
- a calculation, as percentage of the endowment and in real terms, of University investment in companies which promote ESG values (as defined by AA or AAA ratings in the MSCI ESG list)
- information on the University investment process
- updates on changes made to address the ESG working group's recommendations
- concrete goals for further progress on the ESG working group's recommendations
- In such a process, Partners Capital would be responsible for producing the information for the report and university administration for sharing it with students, faculty, staff, and other community stakeholders.

In addition to such a report, the ESG working group recommends the creation of **a public dashboard.** This dashboard should:

- state the Responsible Investment Statement principles outlined in this document and the sectors which represent them
- indicate the amount, as percentage and in real terms, of University investment in sectors described in Part IV, as defined by exposure to companies inventoried in the Episcopal Church "no-buy" list
- break this amount down at the sector level, indicating which specific sectors of ESG concern are present in University investments, and to what degree (as percentage of endowment and in real terms)
- indicate the amount, as percentage of the endowment and in real terms, of University investment in companies which promote ESG values (as defined by AA or AAA ratings in the MSCI ESG list)
- be updated annually and archived
- measure Sewanee's progress on ESG concerns at the current moment and over time
- be subject to regular revision, with the ability to add additional sectors and companies over time
- include a mechanism for University stakeholders to submit questions and comments about ESG concerns and endowment investment

Finally, the ESG recommends the creation of a broader administrative committee, the **University Sustainability Committee**, by the provost and authorized the Joint Faculties. The scope of this committee would encompass social, environmental, and economic sustainability concerns, including endowment investment. While this committee would engage with various sustainability initiatives across the University, it would also be responsible for the monitoring and reporting responsibilities outlined above, as well as for the process of soliciting community input outlined below.

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In the spirit of transparency, the ESG additionally recommends creating opportunities for University stakeholders to offer input on endowment investment, including sectors and companies that should be subject to future screens, either negative (to be avoided) or positive (to be prioritized):

- For a sector or company to be considered for negative screening, it should substantially and materially contribute to and benefit from activities that clearly contradict core values held by the University, such as environmental stewardship and human dignity.
- Sectors or companies to be prioritized for investment should similarly be those that substantially and materially contribute to core values held by the university.
- Decisions about ESG investment priorities will also keep in mind that the purpose of the endowment is to support the University's mission through prudent and responsible management consistent with the University's values and identity.
- Opportunities for University stakeholders to offer input should be available on an ongoing basis via the dashboard recommended above
- The annual report should summarize University stakeholder concerns as well as institutional efforts to address them