Sustainable and Socially Responsible Investing

at the University of North Carolina Greensboro:

The First Chapter

Authors: Stephen P. Holland, Sarah D. Rahbek

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Contact: sphollan@uncg.edu
I. Introduction

Awareness of society’s destructive impact on the environment requires a focus on efforts of promoting sustainability. One of those efforts involves organizations examining how their money is invested, and assessing whether or not these investments support their values. Universities in particular can and should take a leadership role in sustainable and socially responsible investing (SRI). This case study describes the movement toward SRI at the University of North Carolina at Greensboro. We hope this is only the first chapter in an ongoing movement at UNCG.

II. Definition and History of Sustainable Development

The advancement and growth of civilization have come at a great cost. Natural resources are being consumed at increasing rates while ecosystems remain subject to vast amounts of pollution produced by society each day. Recognizing the impossibility of unlimited growth in a world of finite resources, the Brundtland Commission published a report in 1987 entitled *Our Common Future* where the term *sustainable development* was defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” (United Nations) Many individuals and organizations have since embraced the concept of sustainable development. In 1992, 108 countries endorsed a global sustainable development action plan at the United Nations Conference on Environment and Development. (National Academy of Sciences) This action plan, entitled Agenda 21, laid the
foundation of environmental protection and made sustainability an integral part of the
development plans for those countries.

Since then, the approach to sustainable development has become more holistic:
focusing not just on environmental concerns, but also on social and economic aspects of
development. This three-legged stool of sustainability recognizes that the environment,
economy, and ethics are each integral and interdependent in the process of sustainable
development. In 2008, the United Nations published a report with suggestions on how to
measure a country’s progress in sustainable development. The proposed measurements
incorporate environmental, economic, and social well-being into indicators such as health-
adjusted life expectancy, quality-adjusted water availability, and real per-capita natural capital.
(United Nations) These measurable statistics allow countries to assess their progress in the
many-faceted sustainable development process more comprehensively.

III. Definition and History of Socially Responsible Investing

Socially responsible investing has roots in religious teachings and practices. Aligning
business practices with moral and social values, religious literatures of many faiths include
guidance on ethical investing and caution against sinful spending. For example, during the
medieval period, European Christians used the Old Testament as an ethical guide on loans and
investments. In the 17th century, colonial Quakers were advised against profiting from the sale of
weapons or engaging in the slave trade. In the 1920’s the English Methodist Church divested from
companies affiliated with perceived sinful products such as alcohol or tobacco. (Renneboog)
Beyond religious institutions, other organizations have incorporated ethical concerns in their investment policies and procedures. Divestment from companies affiliated with South African Apartheid was widespread and encompassed many types of organizations and institutions. In the 1960’s a globalized movement began urging investors to divest from South African corporations who were part of the country’s system of Apartheid. (Gethard) The divestment movement, which was led by both public institutions and private corporations, lasted over 20 years, and the economic pressure likely contributed to the fall of the Apartheid regime in 1994.

Early socially responsible investing consisted primarily of negative screening: investors screening their investments for companies affiliated with causes they don’t want to support. Religious institutions avoiding purchasing stocks of corporations that profit from moral transgressions (e.g., slavery or alcohol) and companies divesting from corporations with ties to apartheid are both examples of negative investment screening. Over time, socially responsible investing evolved to include positive screening as well. Positive screening includes searching for investment opportunities that support a cause important to the investor. (Renneboog) For example, positive screens include investing in corporations involved in recycling or renewable energy or corporations with good social governance such as equitable pay structures and corporate transparency.

Modern socially responsible investing goes beyond positive and negative screening, encompassing a more holistic approach to investment by combining screening with active proxy voting and shareholder initiatives. Many shareholders are passive and simply buy stock in corporations they like and sell stock in corporations they do not like. In contrast, active
shareholders use their ownership rights to work to improve the corporations they own. For example, active shareholders may vote for or against certain directors based on their actions. Shareholder initiatives can require the corporation to increase transparency or to improve pay equity. This broad-based approach to socially responsible investing (which is sometimes called environmental, social, and governance (ESG) investing) goes beyond a simple assessment of what investors own by providing an avenue for investors to exercise their ownership of a company.

IV. The Role of Universities in Sustainable and Socially Responsible Investing

Universities have a responsibility to contribute to the development of the community in which they’re located. (Goddard) Promotion of regional development includes contributing to sustainable development within a community. Universities can support sustainability for example, by improving internal processes to make them more environmentally friendly or by promoting the teaching and research of sustainability. (Karatzoglou)

Many universities have accumulated substantial endowments. Pressure from students, alumni, faculty, and staff has encouraged universities to adopt their natural leadership position in the movement toward socially responsible investing. In the 1960’s during the Vietnam War, anti-war protests led many universities to withdraw their investments in defense contractors. (Lumberg) In the 1980’s universities were at the forefront of the divestment movement from South Africa due to apartheid. Many universities are responsible for keeping their endowment investments consistent with commonly held views of socially responsible investing and
maintaining an ethical investment portfolio in terms of environmental, social, and governmental issues.

One recent push for socially responsible investing by universities comes in the form of a student-led movement encouraging divestment from fossil fuels. Advanced in part by Bill McKibben’s DoTheMath tour which calls to attention the effects of current oil consumption on climate change, students at college campuses all over the country have started campaigns to stop endowment investments involving fossil fuels. Currently over 200 universities in the United States have active campaigns on campus to divest from fossil fuels, with a few universities making the commitment to divest. (McKibben)

The importance of socially responsible investing at universities and other non-profit organizations led to the creation of the Intentional Endowments Network (IEN). This network works to encourage and support sustainable and socially responsible investing at these institutions by publishing newsletters and hosting conferences where interested parties can share ideas, struggles, and solutions. The network publishes case studies and sample investment policies which can serve as models for universities. IEN hopes to solve the coordination problem in which investment professionals don’t offer ESG investments because administrators don’t demand them and administrators don’t demand ESG investments because no vendors offer them.

V. The University of North Carolina at Greensboro (UNCG)

Located in the heart of North Carolina in the city of Greensboro, the University of North Carolina at Greensboro (UNCG) was founded in 1891. Part of the UNC system, UNCG has over
19,000 students enrolled. As a higher education institution, UNCG takes its responsibility of community development to heart, integrating the community into its mission statement with the university serving as ‘a source of innovation and leadership meeting social, economic, and environmental challenges in the Piedmont Triad, North Carolina, and beyond’. (UNCG)

UNCG has created a strategic plan that outlines the goals and values that are central to the university’s mission. UNCG explicitly addresses the issue of sustainability in its Strategic Plan, stating that “sustainability – academics, operations, and outreach are conducted with careful attention to the enduring interconnectedness of social equity, the environment, the economy, and aesthetics.” (UNCG) UNCG’s definition explicitly adds a fourth leg, aesthetics, to the three-legged stool of sustainability. According to UNCG’s strategic plan, sustainability should “instill values that promote justice, invent innovative approaches and solutions to environmental and economic challenges, and invest civility and grace into our communities.”

UNCG exhibits its commitment to sustainability in a number of ways. In the past decade the university has added LEED certification to 17 buildings on campus through the construction of new buildings and the renovation of old buildings. The dining services on campus have made their internal processes more environmentally friendly by purchasing local produce and environmentally friendly fish, and by making concerted efforts to reduce food waste. In addition, the interdisciplinary Environmental and Sustainability Studies major has experienced rapid growth in recent years and is now in the process of merging with the Geography Department.

To encourage sustainability related projects, a student-led initiative resulted in a $2.22 fee each semester from each student, which is invested into a Green Fund. Examples of the
projects sponsored by the Green Fund include sustainability-related art shows, installation of electric vehicle charging stations in parking decks on campus, and LED light conversion in multiple buildings on campus. The Green Fund enables and encourages students to be involved in the process of sustainable development on campus.

To ensure that UNCG’s commitments to sustainability are met, the university has a Chief Sustainability Officer, a Sustainability Coordinator for Operations, an Academic Sustainability Coordinator, Sustainability Faculty Fellows, and a Sustainability Council. The Sustainability Council is composed of students, faculty, and staff and advises the Chancellor on all matters related to sustainability.

UNCG’s efforts at sustainability have not gone unnoticed. The Princeton Review named UNCG as one of the 353 most environmentally responsible colleges in the United States. In 2016, the Association for the Advancement of Sustainability in Higher Education (AASHE) recognized UNCG as a top performer in their Sustainable Campus Index. UNCG has also been awarded a gold rating in AASHE’s Sustainable, Tracking, Assessment, & Rating System (STARS). In addition, the Sierra Club rated UNCG as 71st out of over 200 universities for their commitment to sustainability on campus in 2017.

VI. Investment at UNCG – What We’re Doing Now

With an endowment of about $250 million, UNCG has the potential to invest a substantial amount of money into sustainable and socially responsible avenues. However, UNCG’s investment policies and procedures have not been aligned with the university’s core values and broader commitment to sustainability. According to the current investment policy
the guidelines for investments are to preserve and enhance purchasing power, aiming for an average annual real return of 5%. Currently there are no content restrictions on investments. (The University of North Carolina at Greensboro Investment Fund) This unrestricted policy allows the potential for investments that are in opposition to the university’s broader mission statement.

One way to assess UNCG’s performance on sustainable investing is with the Sustainability Tracking, Assessment & Rating System (STARS). STARS is a voluntary self-reporting system that provides a rating for universities on sustainability-related criteria. There are five different rankings in STARS: platinum, gold, silver, bronze, and reporter. Table 1 displays the categories included in the STARS reports, along with the total possible points that can be earned in each category.

Table 1. STARS categories and possible points.

<table>
<thead>
<tr>
<th>Category</th>
<th>Possible Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academics</td>
<td>58</td>
</tr>
<tr>
<td>Engagement</td>
<td>41</td>
</tr>
<tr>
<td>Operations</td>
<td>69</td>
</tr>
<tr>
<td>Planning and Administration*</td>
<td>32</td>
</tr>
<tr>
<td>Innovation</td>
<td>4</td>
</tr>
</tbody>
</table>

Among the STARS reporting categories, the section related to sustainable and socially responsible investing is the Planning and Administration category. There are three elements related to investment. Table 2 lists each element along with a detailed description of the element’s requirements.
Table 2. STARS Investing elements.

<table>
<thead>
<tr>
<th>Element</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Committee on Investor Responsibility (2 pts.)</td>
<td>University has a committee that makes recommendations to endowment decision-makers on sustainable investments.</td>
</tr>
<tr>
<td>Sustainable Investment (4 pts.)</td>
<td>Institution invests in one or more positive sustainable sources, or institution has policies and/or practices which meet a number of sustainability-focused criteria.</td>
</tr>
<tr>
<td>Investment Disclosure (1 pt.)</td>
<td>Institution makes records of investments available to the public and updates those records annually.</td>
</tr>
</tbody>
</table>

As of 2015, UNCG has a gold rating in STARS. Within the investment category, however, the university has no points in any of the three categories. Of the schools in North Carolina who report to STARS, Table 3 details their overall STARS score and rating, along with the points they earned in each of the investment categories. An asterisk indicates that the school is a part of the UNC system. The table shows that despite being highly ranked on many dimensions of sustainability, UNCG could and should be doing more to ensure that our investments are aligned with our core value of sustainability.
Table 3. STARS results for North Carolina colleges and universities.

<table>
<thead>
<tr>
<th>School Name</th>
<th>Overall Score</th>
<th>Rating</th>
<th>Committee on Investor Responsibility (2pts)</th>
<th>Sustainable Investment (4pts)</th>
<th>Investment Disclosure (1pt)</th>
</tr>
</thead>
<tbody>
<tr>
<td>*Appalachian State University</td>
<td>77.24</td>
<td>Gold</td>
<td>2</td>
<td>0</td>
<td>Not Pursuing</td>
</tr>
<tr>
<td>*University of North Carolina Chapel Hill</td>
<td>71.75</td>
<td>Gold</td>
<td>0</td>
<td>0.36</td>
<td>0</td>
</tr>
<tr>
<td>*University of North Carolina Greensboro</td>
<td>69.6</td>
<td>Gold</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>*North Carolina State University</td>
<td>65.87</td>
<td>Gold</td>
<td>Not Pursuing</td>
<td>0.74</td>
<td>0</td>
</tr>
<tr>
<td>Wake Forest University</td>
<td>56.88</td>
<td>Silver</td>
<td>0</td>
<td>0.46</td>
<td>0</td>
</tr>
<tr>
<td>Carolina Central Community College</td>
<td>54.08</td>
<td>Silver</td>
<td>Not Pursuing</td>
<td>Not Pursuing</td>
<td>0</td>
</tr>
<tr>
<td>Warren Wilson College</td>
<td>52.39</td>
<td>Silver</td>
<td>2</td>
<td>1</td>
<td>Not Pursuing</td>
</tr>
<tr>
<td>*University of North Carolina Wilmington</td>
<td>51.34</td>
<td>Silver</td>
<td>Not Pursuing</td>
<td>Not Pursuing</td>
<td>Not Pursuing</td>
</tr>
<tr>
<td>*University of North Carolina Charlotte</td>
<td>50.7</td>
<td>Silver</td>
<td>Not Pursuing</td>
<td>Not Pursuing</td>
<td>Not Pursuing</td>
</tr>
<tr>
<td>Elon University</td>
<td>50.16</td>
<td>Silver</td>
<td>Not Pursuing</td>
<td>0.39</td>
<td>0</td>
</tr>
<tr>
<td>*East Carolina University</td>
<td>41.01</td>
<td>Bronze</td>
<td>Not Pursuing</td>
<td>Not Pursuing</td>
<td>Not Pursuing</td>
</tr>
<tr>
<td>*University of North Carolina Pembroke</td>
<td>35.79</td>
<td>Bronze</td>
<td>Not Pursuing</td>
<td>Not Pursuing</td>
<td>Not Pursuing</td>
</tr>
<tr>
<td>Duke University</td>
<td>Reporter</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*UNC System School

NC Schools not in STARS: Guildford College, Brunswick Community College, *Fayetteville State University, Davidson College, Haywood Community College, *Elizabeth City State University, North Carolina Central University, *University of North Carolina Asheville, *University of North Carolina School of the Arts, *Western Carolina University, *Winston-Salem State University, Barton College, Belmont Abbey College, Brevard College, Catawba College, Greensboro College, High Point University, Lees-McRae College, Lenoir-Rhyne University, Mars Hill University, Meredith College, Montreat College, North Carolina Wesleyan College, *North Carolina Agricultural and Technical State University, Salem College, *North Carolina Central University, *North Carolina School of Science and Mathematics, University of Mount Olive, William Peace College, The Art Institute of Charlotte, Barber-Scotia College, Bennett College, Campbell University, Carolina Christian College, Carolinas College of Health Sciences, Chowan University, Gardner-Webb University

To gain a better understanding of sustainable investing at other universities in North Carolina, we conducted a survey of financial officers at the 17 UNC-system universities. The survey included questions on specific investing practices such as positive or negative screens.
and questions on the overall attitude of the university toward sustainable investing. The complete survey is in Appendix A. We received five responses. One respondent (not included in tabulations below) responded:

The survey does not fit our reality. Our endowment funds are invested through UNC Management Company and Global Endowment Management. Neither entity specifically meets the match you are looking for, though GEM in particular has devoted considerable effort to investigate ESG and pursue methodologies consistent with their endowment model.

Table 4 displays the results of the questions on specific investing practices. These questions focus on the existence of positive and negative screens as well as investments in some high profile clean and dirty corporations. Affirmative responses about negative or positive screens elicited further questions about these screens. One respondent, who reported negative screens at their institution, identified negative screens against “sin stocks’, e.g., alcohol, gambling, firearms.” and reported that any screening is done by UNC Management Company. The other respondents did not report negative screens. No respondent reported positive screening in investment practices although one respondent reported investments in “carbon clean 200” corporations.

Table 4. Responses to survey questions on investment practices.

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>Unknown</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does your investment policy include any negative screens, e.g., policies against ownership of certain stocks?</td>
<td>1</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Does your investment policy include any positive screens, e.g., policies requiring ownership of certain stocks?</td>
<td></td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Does your university have investments in the &quot;dirty 200&quot; or similar groups of companies that have been targeted by fossil-fuel free divestment campaigns?</td>
<td>3</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Does your university have investments in the “carbon clean 200”?</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>
Figure 1 displays responses from survey questions about the university’s attitudes toward sustainable investing. Each respondent was asked to rate each question on a scale of 1- (not at all) to 5 (a top priority). Responses to Q1 generally show support for sustainable investing across various stakeholders. However, responses to Q2 suggest that investment policies do not necessarily reflect this support. The responses also suggest substantial heterogeneity across attitudes at respondent universities with some reporting sustainable investing is a top priority and other reporting that it is not at all important.

Figure 1. Responses to survey questions on attitudes to sustainable investing.
VII. Moving Toward Change

Concerned about how UNCG is investing its endowment, members of the Sustainability Council, the Green Fund, and the Sustainability Faculty Fellows created a series of events designed to start a campus-wide conversation on sustainable and socially responsible investing.

Each conversation had a specific sustainability-related focus and was led by a diverse group of panel members ranging from academic professors to financial investors to university financial officers. (See https://sustainability.uncg.edu/conversations-sustainable-socially-responsible-investing/ for more information)

The goal of the first conversation in the series was to introduce the topic through an examination of what sustainable and socially responsible investing is and why it’s important. The speakers provided an overview of the definition and the history of sustainability, and then gave a motivation for responsible investment with the argument that divestment could act as a public good. For example, a large-scale divestment from the fossil fuel industry has the potential to weaken the industry, disrupting fossil fuel consumption and therefore slowing down the progression of global warming. The first event in the series was intended to bring awareness to sustainable and socially responsible investing at UNCG.

The second conversation in the series was designed to provide information on the business of responsible investing. With a panel of investors who specialize in sustainable and socially responsible investing, this conversation presented an overview of the similarities and differences in approaches to responsible investing from different investment firms. The consensus amongst the panelists was that sustainable and socially responsible investing was an increasingly common investment strategy that promises to grow in terms of investment
approaches. One of the significant messages that was delivered at this event was that sustainable and socially responsible investing can be practiced by any individual and can be as simple as choosing what company to bank with.

The goal of the third conversation was to gain insight on what universities, including UNCG, are doing with their endowment in terms of sustainable and socially responsible investing. Currently UNCG is in the process of sending out a request for information to its investment management firm to better understand the impact of its investments. The board of trustees for UNCG’s endowment has shown an interest in sustainable and socially responsible investing, but currently the university’s investment policies do not address the issue of sustainability. There is a lengthy process to change the university’s investment policies, and change is most likely to come from both bottom-up and top-down pushes, with both the student body and the board of trustees advocating for change. The insight gained on UNCG’s current endowment from this conversation helps in understanding the process necessary for moving forward to a more sustainable and socially responsible investment.

The fourth and final conversation in the series was intended to assess how the university should move forward given what we have learned from the previous three events. After providing a recap of the first few conversations, the audience split into groups to discuss possible paths the university should take. Recommendations included creating projects to get students more involved; working with the Chancellor to make a change in our investments; and enlisting the support of campus governmental groups for changing the university’s investment policy. Governmental groups on campus (namely, Student Government Association, Staff Senate, and Faculty Senate) are influential sources to push for such a change.
VIII. Recommendations for Going Forward

The year of conversations and learning has led to several insights and conclusions. Most importantly we have seen that sustainable and socially responsible investing is now widely accepted and feasible with only a small (if any) loss in investment performance. Thus, it should be relatively easy for UNCG to adopt sustainable and socially responsible investing into our investment policies.

The University’s investments are controlled by an Investment Board who have the authority to change the investment policy to reflect UNCG’s core value of sustainability. We recommend that the Board revise UNCG’s investment policy to incorporate sustainable and socially responsible investment policies consistent with the core values and sustainability principles of UNCG.
References


Appendix A

Survey Introduction:

Dear UNC-system Financial Officer,

Earlier this year, you were contacted by Charlie Maimone, UNCG Vice Chancellor for Business Affairs, in conjunction with UNCG’s conversations on sustainable and socially responsible investing (S&SRI). I am a Professor in UNCG’s Department of Economics and the Sustainability Faculty Fellow coordinating the conversations. This brief survey follows up on Charlie’s earlier communications and asks details about the role of S&SRI in your investing policies. Summary responses from this survey will be used in UNCG’s deliberations and may be reported publicly. Responses from specific universities will not be identified or identifiable. If it is easier, you may forward this survey to another respondent in your university.

Thank you for your participation,

Stephen Holland

Survey Questions:

1) To what degree are sustainability and socially responsible investing reflected in the investment policies at your university?
2) What amount of endowment funds does your university currently have invested?
3) What percent of your endowment is currently invested sustainably, i.e., according to S&SRI principles?
4) What are the specific mechanisms through which your university’s endowment funds are invested?
5) Does your investment policy include and negative screens, e.g., policies against ownership of certain stocks.
5.A) Does your investment policy include negative screens against “sin stocks”, e.g., alcohol, gambling, firearms?
5.B) Does your investment policy include negative screens against polluting industries, e.g., refineries, petrochemicals?
5.C) Does your investment policy include negative screens against, e.g., coal mining, oil extraction?
5.D) Does your investment policy include and other negative screens besides those previously mentioned? If yes, please explain.
6) Does your investment policy include any positive screens, e.g., policies requiring ownership of certain stocks?
6.A) Does your investment policy include any positive screens for cooperate governance, e.g., equitable pay, transparency?
6.B) Does your investment policy include any positive screens for environmental stewardship, e.g., recycling, land stewardship?
6.C) Does your investment policy include any positive screens for renewable energy, e.g., solar or wind power?
6.D) Does your investment policy include any other positive screens besides those previously mentioned? If yes, please explain.
7) Does your investment policy have a mechanism for active proxy voting?
8) Does your university have investments in the “dirty 200” or similar groups of companies that have been targeted by fossil free divestment campaigns?
9) Does your university have investments in the “carbon clean 200”?
10) Has your university had a substantial discussion on the topic of socially responsible or sustainable investment, and if so, when and what was the outcome?
11) Is your university considering changing its investment practices either to target or avoid certain practices or priorities?
12) Are the current investment practices of your university substantially different than in the recent past? If so, how, and why did they change?
13) How effective have divestment campaigns been in the past at your university?
14) How much support has there been from students, faculty, staff, trustees, or other stakeholders for sustainable and socially responsible investment at your university?
15) How important is transparency in the investment policies at your university?