



# **Fossil Fuels and Climate Impact Task Force**

**September 19, 2017**

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# The Endowment



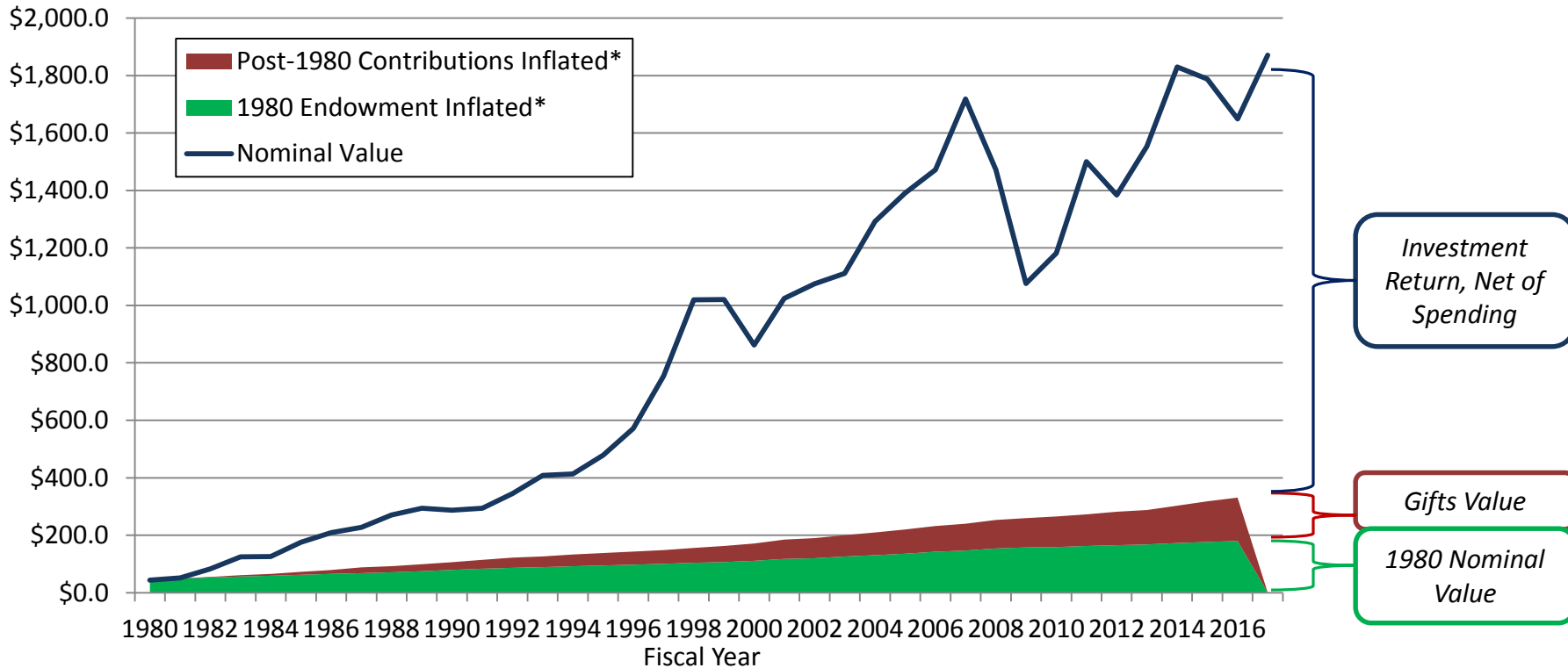
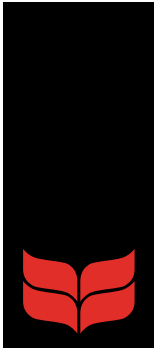
- Predictable and stable financial support to help College achieve its mission
- \$1.87 billion as of the end of FY 2017\*
- 8.0% annualized returns over the last 20 years\*

**\$1.87B**  
Endowment

**8.0%**  
20 Year Annualized  
Returns

**\$1.87B endowment to financially support mission of the College**

# Sources of Growth



**Returns have been driving force of endowment growth**

\*The Higher Education Price Index (HEPI) is used as a measure of inflation

# Performance



Rate of Return % as of June 30, 2017

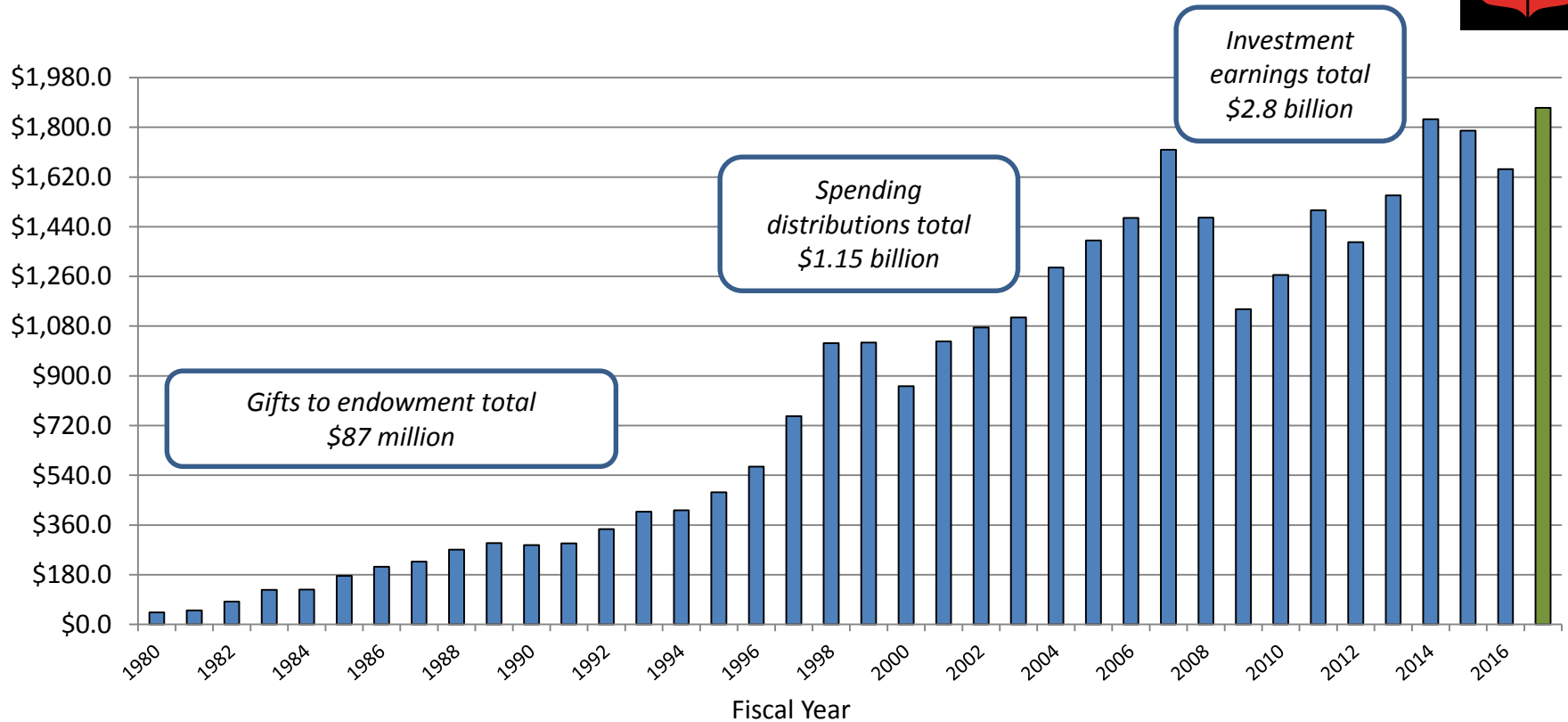
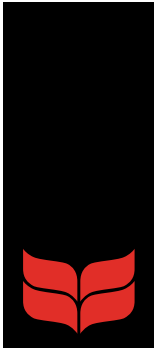
	1 Year	3 Year	5 Year	7 Year	10 Year	15 Year	20 Year
Endowment	18.8*	4.6	10.0	9.5	3.9	7.0	8.0

## **Benchmarks**

BC Govt 1-3 Yr	(0.1)	0.7	0.7	0.8	2.0	2.3	3.4
S & P 500	17.9	9.6	14.6	15.4	7.2	8.3	7.2
MSCI World	18.2	5.2	11.4	11.4	4.0	7.2	5.5
MSCI ACWI	18.8	4.8	10.5	10.5	3.7	7.3	--
MSCI EAFE	20.3	1.2	8.7	7.9	1.0	6.3	4.3
HFRX Equity Hedge	8.1	0.5	3.4	1.3	(1.5)	--	--
MSCI EM Equal Country Wt	16.9	(2.5)	0.7	2.5	1.7	13.3	--

**Endowment outperformed market over a 20-year annualized period**

# Endowment Value



**Investment returns funded over \$1B of spending over last 37 years**

# Payout



- Spending Policy: 4% of trailing 12 quarter average value of endowment paid out
- \$68.6M paid out for FY17 budget, per Spending Policy
- Additional transfers of \$14.3M for additional spending, debt service and reserve funds; total transfers of \$82.9M for FY17 (4.8%)\*

**4%**  
**12Q Average  
Payout (per  
Spending Policy)**

**\$68.6M**  
**FY17 Payout  
(per Spending  
Policy)**

**Total FY17  
Transfers of  
\$82.9M (4.8%)**

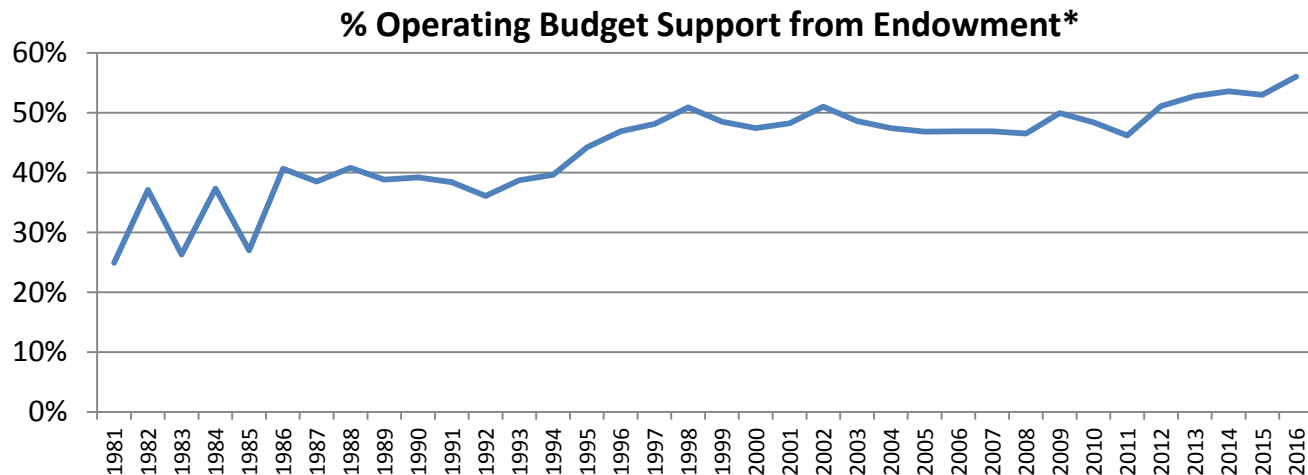
**4% of trailing 12 quarter average value paid out to support operations**

\* Additional transfers approved by the Board for FY17 are comprised of \$9.3M of additional spending (including debt service) and \$5.0M in reserve funding. This slide has been altered since its original presentation on September 19, 2017 to reflect these additional spending amounts.

# Dependence on Endowment



- Endowment supports 55%\* of FY 2017 operating budget
- Increased from ~30% to 55% in the last 30 years
- Peer schools average 34% support from respective endowments



**Operating budget dependence grown to 55% over last 30 years**

\* Including reserve transfers



# Investment Policy



- “The College intends that its endowment shall be invested **to ensure the long-term growth of its capital** rather than maximize annual income or short-term returns, recognizing the impact of volatility and liquidity on its **responsibility to provide predictable and stable financial support for the College’s** mission as a fine liberal arts college.”
- “The Investment Committee **recognizes the importance of socially-responsible decisions to the long-term financial performance of business enterprises**, and it selects investments and investment managers whose conduct is consistent with the core values of the College.”

**Policy set by Board focuses on long-term, stable financial support**

# Investment Team



- Eight person investment office including three Grinnell alumni
- Responsible for portfolio management, manager diligence and monitoring

**Scott Wilson '98\***  
Investments

**Andrew Choquette '00**  
Investments

**Angela Clement**  
Investments

**David Clay**  
Investments

**Paige Carlson '05**  
Operations

**Kelly Sandquist**  
Operations

**Donnette Ellis**  
Administrative

**Nicole Froah**  
Administrative

**Investment team responsible for portfolio and diligence**

# Portfolio Structure



- 85% of portfolio invested via external managers
- Investment team selects the external managers
- External managers select the stocks, bonds, etc.
- Not investment team's discretion as to which securities are chosen

**85%**

**Indirect (external)  
Management**

**Separately Managed Accounts** – investment manager selects and purchases underlying investments which are held directly by the College through its custodian

**Commingled Accounts** – College owns an interest in an investment partnership, which in turn selects, purchases and owns the underlying investments

**85% of portfolio invested via external managers**

# Portfolio Structure



Equities	Investments in public equities through separately managed accounts
Absolute Return	Various investment assets through commingled accounts; strategies include long/short equity, multi-strategy, event-driven credit
Private Equity	Illiquid/private assets through commingled accounts; strategies include buyout, growth equity, venture capital and distressed funds
Real Assets	Real estate and natural resources through commingled accounts

1

**External managers: public and private equity, absolute return, real assets**

# Pipeline Process



**1000s**

## Initial Point of Contact:

- Thousands of prospective investments each year
- Sources include placement agents, cap intro conferences, peer institutions, investment literature, cold calls
- Majority are eliminated based on size, geography, performance history, investment philosophy and/or investment type



**100s**

## Secondary Review:

- Hundreds of prospective investments each year
- Review of high-level written materials
- Continuing internal pipeline discussion



**10s**

## Follow-Up Contact:

- Dozens of prospective investments each year
- Multiple telephone conferences and in-person meetings



**1s**

## In-depth diligence:

- Review of all fund marketing and legal documents
- Performance analysis
- Reference checks



**Recommendation to Investment Committee**

# In-Depth Diligence



**Ongoing Prospective  
Manager Meetings**



**Performance  
Review**



**Document  
Review**



**Reference  
Checks**

- **Telephonic meetings and site visits**
- **Founder/portfolio managers/CIOs, analysts, and back-office**
  
- **Track record**
- **Benchmarking analysis**
- **Attribution analysis**
  
- **Marketing materials – slide deck, PPMs**
- **Case Studies**
- **Legal Review – LPAs, operating agreements, side letters**
  
- **Provided references**
- **Independent references/industry contacts**

**Extensive diligence focused on institutional process**

# Global Diligence



- Investment team conducts diligence on opportunities globally
- Majority of time spent looking for best of the best managers/partners
- Global portfolio with developed, emerging, and frontier market investments



**Global search for the best investment opportunities**

# Manager Selection



- Success is based on partnering with the world's best managers
- Long-term relationships averaging ~7 years, with some at almost 20 years
- Multi-year commitments to help sustain the College's long-term mission

**Selecting and working with exceptional managers critical to success**



# Value Investing



- Investment managers select equities trading for less than “intrinsic value”
- Purchase equities with a margin of safety: deep discount to intrinsic value
- Often involves an overreaction of the broader market
- Joe Rosenfield and Warren Buffet both value sensitive investors
- Preference continues for value investors

**Long Grinnell endowment history of value sensitive investing**

# Environmental, Social and Governance Matters (ESG)



- Environmental: energy use, waste, pollution, natural resource conservation
- Social: labor conditions, corporate citizenship
- Governance: transparency, voting issues, avoid conflicts of interest
- Approach is dynamic: always opportunity to learn more
- Appointment of investment team member to lead oversight of all ESG issues
- Integral part of research: good investors very aware of ESG issues in theses
- Engagement with responsible investing initiatives and organizations
- Peer networking and best practices from other institutions
- Adoption of Divestment Sub-Policy by Investment Committee in Feb 2017

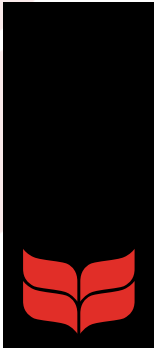
**Dynamic approach to learning and integrating ESG issues**

# Grinnell College ESG Approach



- Manager Oversight
  - Ongoing ESG review approach in diligence, new research, and existing positions
  - Open dialogue with investment partners
  - Review ESG policies adopted
  - Monitor fossil fuel holdings, including CU 200
- Proxy Voting Oversight (separately managed accounts)
  - Portfolio transparency relating to fossil fuels
  - Corporate policy regarding gender pay equity
  - Other environmental issues, such as pollution
  - Transparency relating to governance and labor practices

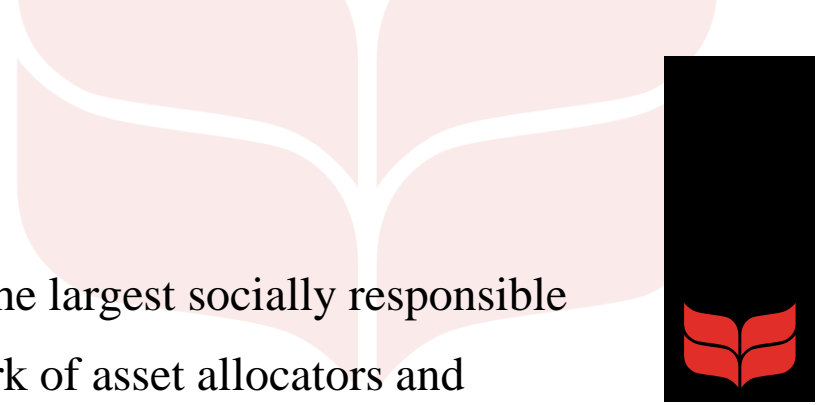
**Assessment of ESG issues part of research process**



# Grinnell College ESG Approach: Responsible Investing Initiatives



**Actively engaging with responsible investing initiatives and organizations**



The UN Principles for Responsible Investment is the largest socially responsible investment organization in the world. It is a network of asset allocators and managers that have made an aspirational commitment to the Six Principles of Responsible Investment:

- Incorporate ESG issues into investment analysis and decision making processes
- Be active owners and incorporate ESG issues into our ownership policies and practices
- Seek appropriate disclosure on ESG issues by the entities in which we invest
- Promote acceptance and implementation of the principles within the investment industry
- Work together to enhance effectiveness in implementing the principles
- Report on activities and progress towards implementing the principles

**UN PRI is the largest socially responsible investment organization**

The Intentional Endowments Network is an organization devoted to academic endowments looking to explore an ESG focus. IEN also curates a library of policies and reports from peer institutions.

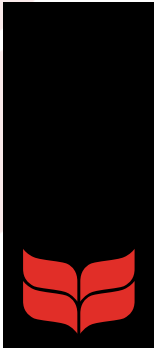


The Ceres Investor Network is a component of Ceres—an larger environmental nonprofit. Members of the Investor Network must join “working groups” centered around a specific issue, then work towards filing and voting on shareholder resolutions pertaining to that topic. Working groups focus on issues: deforestation, carbon risk, etc.

**Focus on peer networking and shareholder resolutions**



The CDP (fka the Carbon Disclosure Project) is a network of companies and investors devoted to disclosure of corporate environmental data (lobbying, supply chain, etc). CDP annually provides its investor members with environmental data from public companies that are willing to disclose.



Both the Portfolio Decarbonization Coalition and the PRI Montreal Pledge involve commitments to “decarbonize” a portfolio using specific metrics.

**Focus on fossil fuel metrics for specific companies and portfolios**

# Manager Constraints



- Best investment managers have no problem raising capital
- Considered partners, but view restrictions as asymmetrical incentive
- Grinnell preference for smaller managers to align interests
- Capacity is scarce and not guaranteed
- Cannot move in and out of best managers
- Certain managers insist upon confidentiality
- Prevailing view of managers is to be positive actors who engage, not divest
- Defining what is allowed vs not allowed biggest challenge

**Nuances exist that make access to best managers difficult**



# Fossil Fuel Industry



- Globally, the energy sector represents \$5T in market cap
- 1,500 oil & gas companies in the world represent \$4.7T in market cap
- 275 coal companies in the world represent \$233B in market cap
- Difficult for investment managers to exclude such a large part of the market from investment opportunities

**Energy sector represents \$5T market cap**

# Fossil Fuel Holdings



- As of June 30, 2017, fossil fuel holdings represented 2.4% of the endowment, as compared to 6% of the S&P 500\*

Exposure by Strategy	\$ millions
Equities	\$23.9
Absolute Return/Hedged	\$11.5
Private Equity	\$10.2
Real Assets**	-
<b>Total:</b>	<b>\$45.6</b>

Exposure by Sector	\$ millions
Coal	\$11.4
Oil & Gas	\$34.2
<b>Total:</b>	<b>\$45.6</b>

**Fossil fuel holdings represent 2.4% of the endowment**

\*Energy sector weight of S&P 500

\*\* In May of 2017, the College committed \$30 million to a private equity strategy focused on the mining of base metals (copper, zinc, lead, nickel), industrial/specialty metals (tin, niobium, chrome) and metallurgical coal. None of the capital committed to this fund has been called.

# Carbon Underground 200 Holdings



- Top publicly-traded coal, oil & gas reserve-owning companies globally
- Ranked by carbon emission potential of reported fossil fuel reserves
- Look-through basis: five CU200 names currently in portfolio

Current Holdings			
Anadarko Petroleum	Consol Energy	Pioneer Natural Resources	
Cabot Oil & Gas	Noble Energy		

**Five Carbon Underground 200 holdings in endowment portfolio**

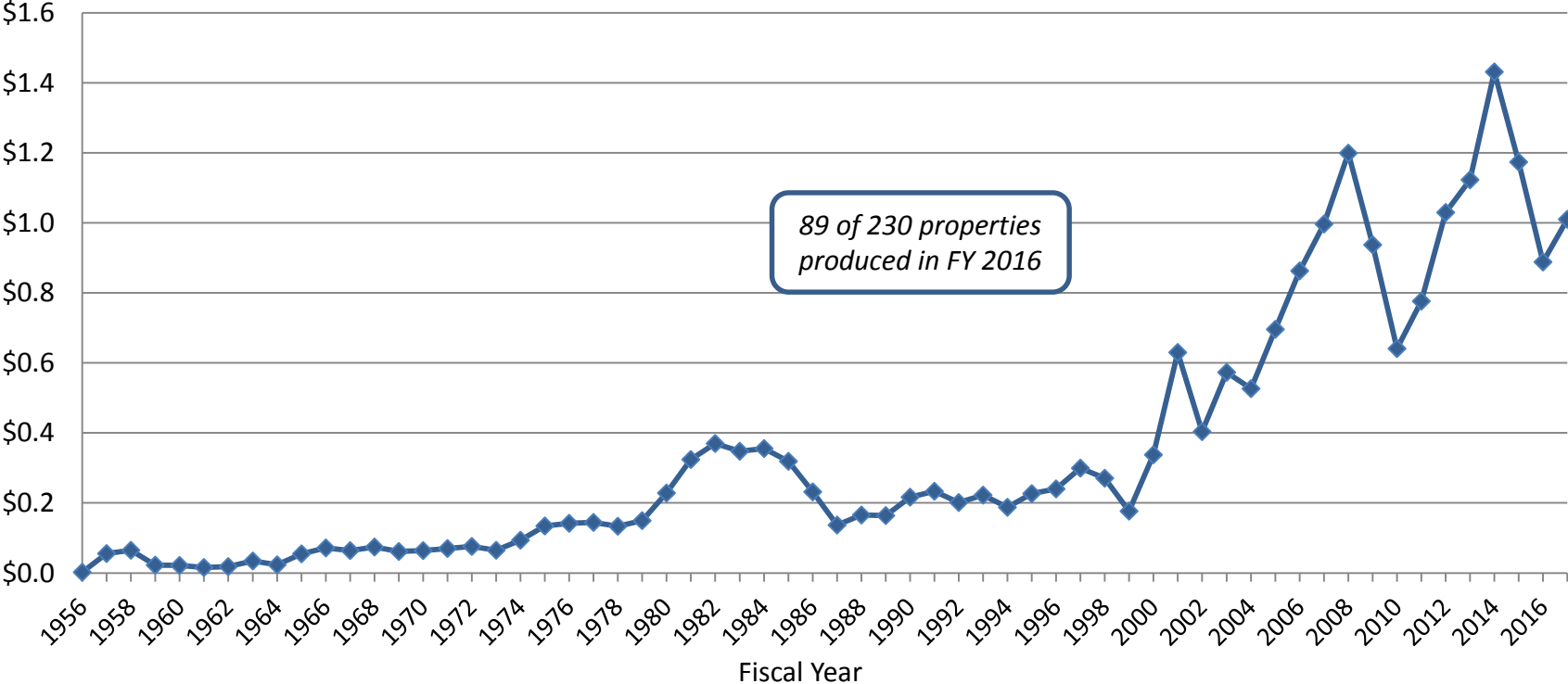
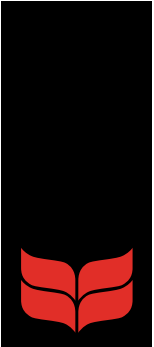
# Mineral Rights



- Obtained through a bequest from the estate of J. Fred Darby in 1956
- Mineral rights for oil and natural gas held in Kansas, Oklahoma and Texas
- College leases the properties to oil and gas companies
- Receives royalties if properties in production
- Average net income produced (2013-2017): \$1,125,285
- Cumulative net income of \$20 million since 1956
- Not a fair value asset so value listed at \$1,200\*

**Mineral rights generate over \$1 million per year for Grinnell**

# Mineral Rights Net Income



**Mineral rights gifts powerful, generating \$20M in cumulative net income**

# Impact Investments



ESG Impact Investments	
Environmental	<ul style="list-style-type: none"><li>• Solar and nuclear power (US and global)</li><li>• Fuel efficiency in auto industry</li><li>• Improvements in energy efficiency at home</li><li>• Investor influence to reduce coal assets</li></ul>
Social	<ul style="list-style-type: none"><li>• Educational rehabilitation</li></ul>
Governance	<ul style="list-style-type: none"><li>• Diversity training for HR departments</li></ul>

**Certain portfolio investments have a positive ESG impact**

# Divestment Sub-Policy



- “The College’s mission, in part, is to ‘graduate individuals who can think clearly, who can speak and write persuasively and even eloquently, who can evaluate critically both their own and others' ideas, who can acquire new knowledge, and who are prepared in life and work to use their knowledge and their abilities to serve the common good.’ As such, the endowment funds of the College are to be invested and used to support this mission to the greatest extent possible, and should not be used to influence matters of social and/or public policy.”

## **-Grinnell College Divestment Sub-Policy**

**Endowment funds to be used to support mission to greatest extent possible**

# Divestment Sub-Policy



- “The Investment Committee believes that shareholder engagement is generally superior to divestment in effecting change in portfolio companies. Shareholder engagement may take many forms, including proxy voting and direct communication with company management. Divestment should be pursued only when all possible shareholder engagement efforts have been explored and considered.”

## **-Grinnell College Divestment Sub-Policy**

**Shareholder engagement most effective for driving change**



# Divestment Sub-Policy



- “There may be extraordinary instances in which the activity of an endowment portfolio company is considered by the Grinnell community to be morally reprehensible, creating a substantial social injury. Divestment will be considered in these cases, according to the policies and procedures set forth below.”

## **-Grinnell College Divestment Sub-Policy**

**Policy establishes procedure to consider specific divestment**

# Conclusion



Careful oversight on environmental, social and governance matters...

- Is consistent with the core values of Grinnell College
- Provides opportunities for the College to be a positive actor
- Is integral to good investing
- Is in the best long-term financial interests of the College

**Careful ESG oversight is integral to good investing**