HAVERFORD
COLLEGE

Haverford College
Investment Office
370 Lancaster Avenue
Haverford, PA 19041

November 20, 2020

Dear Haverford College Community,

We are pleased to present to the College community our annual letter on the Haverford endowment. The College's endowment returned -1.3%, net of fees, for the fiscal year ended June 30, 2020, ending the fiscal year at approximately $503.4 million. This value represents a decrease of $23.5 million from the prior year, and reflects investment returns of approximately -$7.1 million, new gifts and inflows of $9.6 million, and a withdrawal in support of the College's academic mission, scholarship, and operations of $26.0 million. As a point of comparison, the Cambridge Associates universe of similarly-sized endowments and foundations (assets between $500 million and $1 billion) reported results ranging from -5.7% to +5.4%, with a median performance of +1.5%.

In this year's letter, we provide a brief overview of the year, including an update on the endowment's asset allocation, and a summary of contributors to and detractors from performance for the year. We also highlight our recently completed Environmental, Social, and Governance (ESG) and Diversity, Equity, and Inclusion (DEI) survey of investment managers in the endowment. As expressed in the College's Investment Policy Statement, we evaluate sustainability and diversity factors in our investment manager selection and monitoring; in conducting this survey, we sought to better quantify and report how our consideration of these factors are reflected in the endowment.

Asset Allocation

In our 2019 letter, we discussed endowment risk management in the context of the College's total enterprise risk and financial condition, and this year we reevaluated the level of risk that can be assumed in the endowment portfolio in order to pursue higher long-term expected returns. This review was performed based on various risk considerations, both within the endowment portfolio and across the College. Within the endowment, the composition and quality of the private equity allocation has significantly improved in recent years. Five years ago, funds to which commitments were made prior to 2008-09 composed the majority of the private equity allocation; these funds have since been reduced to a small portion of the allocation as they have distributed capital and as the current private equity program that began in 2015 has grown. Various factors were also considered across College operations, including an improved debt structure and strengthening income statement, both thanks to the hard work of our colleagues in the Finance division in recent years.

Against the backdrop of this greater certainty and strength in the portfolio and across the College, and following an asset allocation review, the Investment Committee approved a reduction in the allocation to the Low Volatility and Liquidity portion of the endowment from 15% to 10%, with the balance to be reallocated to higher-expected-return assets. This adjustment to the policy did not result in major changes to the individual fund composition in the portfolio, as it is intended to incrementally shift the portfolio towards a higher expected return allocation over time. The allocation policy targets and actual allocation as of June 30, 2020, are shown below. The current allocation is within the revised policy guidelines.

Category	As of June 30, 2020	Policy Target	Minimum	Maximum
Growth Assets	67.9%	66%	62%	70%
Diversifying and Hybrid Assets	13.7%	18%	13%	23%
Real Estate	7.5%	6%	4%	8%
Low Volatility and Liquidity	10.9%	10%	7%	13%
Total	100%	100%		

Market and Performance Review

Market performance for the 2019-20 fiscal year was characterized by the severe COVID-19 pandemic-related market downturn from late February through late March, followed by a steady recovery of the global equity markets. Despite the extraordinary volatility experienced in this period, performance of various asset categories over the course of the year generally reflected a continuation of performance trends of recent years. Specifically, U.S. equities outperformed non-U.S. equities, large-cap stocks outperformed small-cap stocks, growth stocks significantly outperformed value stocks, and market performance (especially in the U.S.) was overwhelmingly driven by a handful of large-cap technology stocks. The pandemic-driven downturn served to further exacerbate these market bifurcations by accelerating existing market trends. Winners during this period tended to be "disruptive" technology-oriented growth stocks, and laggards tended to be more traditional value stocks, driving the value-growth performance disparity to extreme levels.

The endowment performance was reflective of this market environment. A significant portfolio allocation to passive U.S. equity was a positive driver of performance, as were growth- and quality-oriented active U.S. and international equity allocations, contributing a combined 300 basis points to performance. Other positive contributors to performance included a dedicated allocation to Chinese equities, which outperformed U.S. equities, high-quality fixed income strategies, and absolute return strategies with lower net exposure to equities. The primary detractors from performance included value- and small-cap-oriented strategies, which detracted a combined 320 basis points from performance. Other detractors included lower-quality and distressed credit strategies, and real estate, given the nature of the pandemic-driven downturn. Due in part to a portfolio tilt towards equity strategies that invest with a margin of safety in recent years (which generally correspond with a value-orientation) the overall portfolio did not quite recover to positive return territory by the end of the fiscal year, unlike the technology-driven large-cap equity markets. However, as a result of the market declines, we were able to rotate some capital to certain strategies that temporarily opened to accept new capital. We feel this incremental shift of capital to higher conviction strategies will serve the endowment well in coming years.

Through the market downturn, endowment liquidity remained very strong, which was particularly important given the nature of the COVID crisis and the uncertain impact on the College's 2020-21 academic year. The asset allocation was consistently maintained within policy guidelines, and the investment strategy and private investment program continued along its normal pace. After the severe downturn experienced in the first calendar quarter of 2020, the endowment value has since rebounded to approximately pre-crisis levels, net of spending to the budget, though significant market uncertainty remains as a result of the ongoing global pandemic. Lastly, the growing private equity portfolio that has been discussed in prior letters continues to develop well, and is becoming a more meaningful portion of the allocation over time. We believe the portfolio has been populated with funds that will generate strong long-term returns, but with an average fund age of approximately two-and-a-half years, the developing private equity portfolio remains too young to contribute meaningfully to performance.

ESG and DEI Update and Survey

While the primary goal of the investment policy is to maximize risk-adjusted returns, the College formally identified Environmental, Social, and Governance (ESG) and Diversity, Equity, and Inclusion (DEI)[1] in the Investment Policy Statement as factors for consideration in the selection of investment managers in 2016 and 2018, respectively. The policy states that *"sustainability factors can introduce long-term risks to the portfolio, such as those posed by climate change, and acknowledges diversity in background, experience, and perspective expands creative insight and mitigates risk in group analysis and decision-making."* As a reminder, the endowment invests in commingled funds in which Haverford does not fully control the underlying holdings of such funds. So, while we do not screen industries based on these factors, through discussions with current and prospective investment managers we investigate how firms consider these factors in policy and implement them in practice.

Our recent search process for a new international equity manager offers an example of how we implement ESG and DEI values in practice. In the later stages of our search process, we had narrowed our search to two investment firms ("Manager A" and "Manager B") that we considered very competitive candidates based on a range of factors. Among these factors, both firms had generated strong historical performance and integrated ESG into their investment processes. Although Manager A had produced higher historical returns than Manager B (by 1.5% over the prior three years), we felt that Manager B had a more comprehensive and explicit ESG framework, which we believed would contribute to investment success. In addition, Manager B's culture as a diverse-owned firm, with significant diversity at firm ownership and senior leadership levels, suggested that individuals would bring varied perspectives to investment decisions. Considering these qualitative ESG and DEI factors alongside many other qualitative and quantitative factors, we believed that Manager B was best positioned for investment success, and selected Manager B for the mandate. While it has only been a short period of time since our allocation, Manager B has significantly outperformed Manager A over this period.

The ongoing engagement we have with both current and prospective investment managers, such as the example highlighted above, remains a primary means for ongoing communication of Haverford's values to our current and prospective investment manager partners. In addition, to supplement our ongoing efforts in these areas, we recently surveyed all investment managers in the endowment to better quantify how our considerations of these factors are reflected in the endowment as of June 30, 2020. A summary of the survey results, with excerpts from the survey report, is provided below and the complete survey report is attached as an appendix.

Based on survey findings, the majority (69%) of investment managers have an ESG policy or written statement (64%), or are planning to develop one within the next 12 months (5%). As a percentage of total assets, underlying exposures of investment funds aggregate to the following

[1] "ESG" and "DEI" factors are identified in the Investment Policy Statement as "Sustainability" and "Diversity", respectively.

estimated exposures in the endowment: 2.1% exposure to traditional fossil fuel companies; 3.5% exposure to other energy-related companies (e.g., utilities, nuclear, energy infrastructure), which has since been further reduced to 2.2% after June 30th; 0.4% exposure to metals and mining companies; and effectively zero (0.001%) exposure to private prison companies via an international index fund that holds approximately 4,000 companies. The College maintains no dedicated traditional energy-sector specific funds, and exposure to these industries is primarily through both indexed and actively-managed fund investments in liquid funds that follow diversified strategies. The College does not have a history of significant commitments to private, illiquid traditional energy funds. The endowment's single, dedicated investment to a traditional private energy fund was made in 2006, and has only one asset remaining, which represents 0.02% of the total endowment and is expected to be exited by the fund within the next 12-24 months.

As a quick comparison, the endowment has lower exposure to the energy and utilities sectors than the MSCI All Country World Index (ACWI), which has exposures of approximately 3.2% to each of these sectors. Furthermore, a universe of approximately 160 endowments and foundations on which we have comparative data shows that over 85% of the institutions have dedicated private energy exposure, with an average exposure of 2.7%, and a range of 0% to 12.5%, versus our 0.02% remaining in a legacy asset. Based on our survey results, the Haverford endowment holdings reflect a strong influence of ESG considerations on investment practices, to the extent controllable under the endowment structure of commingled fund investments.

Just over half (52%) of investment managers have a DEI policy or written statement (41%), or are planning to develop one within the next 12 months (11%). These policies and statements address DEI considerations beyond standard Equal Employment Opportunity policies maintained by all firms. As a percentage of the total number of investment managers to which Haverford allocates capital, the endowment has approximately: 11% of investment managers that have at least 50% ownership by BIPOC (Black, Indigenous and People of Color) and/or women (representing 12% of endowment assets); an additional 9% that have at least 20% but less than 50% ownership by BIPOC and/or women (representing 6% of endowment assets); and an additional 16% that have greater than 0% but less than 20% ownership by BIPOC and/or women (representing 7% of endowment assets). As a comparison, a recent Congressional report[2] of the 25 largest endowments showed the percentage of assets managed by diverse-owned firms ranging from 5% to 35% of portfolios (no details on the median or distribution of ownership data was provided, and only 20 of 25 institutions provided data), and a 2019 study commissioned by the Knight Foundation highlighted in the Congressional report found that diverse-owned asset management firms manage just 1.3% of assets in the $69 trillion asset management industry.

Investment Staff and the Investment Committee of the Board of Managers will be discussing both ESG and DEI at the December 2020 committee meeting, to discuss the results of the survey and examine additional steps that can be taken to further consider these factors.

Year-End Updates

During the year, we welcomed Izzy Gotuaco to the Investment Office as an Investment Analyst, and the third member of the internal team. Izzy returns to Haverford after graduating in 2018, and joins the Investment Office from Wells Fargo Corporate & Investing Banking, where she was a Financial Analyst. While Izzy isn't quite back to campus yet, given that she officially started work

[2] Congressman Emanuel Cleaver, II and Congressman Joseph P. Kennedy, III. "Inquiry into the Use of Diverse Asset Managers by College and University Endowments, and Related Diversity and Inclusion Practices" Fall 2020 https://cleaver.house.gov/sites/cleaver.house.gov/files/Endowment_Inquiry_Final_Report.pdf

in late March, shortly after we moved to remote work due to the pandemic, we hope to see her in person again soon, rather than only through the countless Zoom meetings in which we all participate. My thanks go out to the investment team and the Investment Committee during what has been a unique and challenging year for everyone. Through extremely volatile market conditions and ongoing uncertainty, the team and Committee have remained focused on the investment strategy, calmly yet purposefully examining the portfolio and specific investment managers, and maintaining the portfolio with a long term perspective that remains in compliance with established policies, while also ensuring sufficient liquidity for the College during a very uncertain time.

Starting with the 2020-21 fiscal year, we also welcome Sara Recktenwald to the Haverford Board of Managers and to the Investment Committee. Sara joined Goldman Sachs in 1987 and retired as Partner after serving as the regional head of the Securities Division in San Francisco, a role she began in 2009. We welcome Sara to the Committee and look forward to her engagement with the team and portfolio.

We are also always thankful for the support and generosity of the Haverford community. Your dedication to the College, especially during the difficult conditions of the past year, enables Haverford to deliver its world-class education to current and future students.

With appreciation for your continued support,

Michael Casel, CFA, CAIA
Chief Investment Officer

Chad Sheaffer, CFA, CAIA
Senior Investment Analyst

Isabelle Gotuaco '18
Investment Analyst

Haverford College Endowment
Report on the 2020 ESG and DEI Endowment Survey

Executive Summary

This report reviews the results from the Haverford Investment Office's 2020 Environmental, Social, and Governance (ESG) and Diversity, Equity, and Inclusion (DEI) survey of investment managers in the endowment. While the primary goal of the investment policy is to maximize risk-adjusted returns, the College formally identified ESG and DEI[1] in the Investment Policy Statement as factors for consideration in the selection of investment managers in 2016 and 2018, respectively. As stated in the Investment Policy, the inclusion of ESG and DEI factors among the criteria on which investment managers are evaluated provides a means to align the College's values with fiduciary responsibility. As such, the Investment Office and Investment Committee incorporate ESG and DEI considerations into the investment decision-making process via open dialogue with investment managers regarding their policies and practices in these areas. This was the first survey of this kind that Haverford has conducted, and learnings from this exercise will inform and improve our data collection process for future ESG and DEI surveys.

Based on the endowment holdings as of June 30, 2020, the Investment Office surveyed all investment managers on the extent to which ESG factors are considered within their respective investment process, exposures to certain industries within each investment portfolio, DEI policies of the firm, and the gender, racial, and ethnic diversity of each firm's ownership and employee bases. The goal of the survey was to better quantify how our considerations of these factors are reflected in the endowment, to aggregate ESG and DEI data across the endowment, and to inform ongoing discussions on our ESG and DEI practices. While these data provide specific portfolio information, the engagement that we have with both current and prospective investment managers regarding these topics should also be highlighted as a primary means for ongoing communication of Haverford's values to our investment manager partners, and to help drive change in the investment industry.

Key Takeaways

Key takeaways from the survey are listed below, and a complete overview of the survey response data is provided in the remainder of this report.

- ESG Policies: The majority (69%) of investment managers have an ESG policy or written statement (64%), or are planning to develop one within the next 12 months (5%).
- Industry exposures: While the endowment does not invest directly in companies, but rather through commingled funds in which the College does not fully control the underlying holdings, a look-through analysis to underlying holdings in commingled investment funds was performed. As a percentage of total assets, underlying exposures of investment funds aggregate to the following estimated exposures in the endowment:
    - 2.1% exposure to traditional fossil fuel companies
    - 3.5% exposure to other energy-related companies (e.g., utilities, nuclear, energy infrastructure), which has since been further reduced to 2.2% after June 30th

[1] Please note that "ESG" and "DEI" considerations are addressed in the Investment Policy Statement as "Sustainability" and "Diversity" considerations, respectively.

    - 0.4% exposure to metals and mining companies
    - effectively zero (0.001%) exposure to private prison companies, due to the underlying holdings of one international index fund with approximately 4,000 companies

- DEI Policies: Just over half (52%) of investment managers have a DEI policy or written statement (41%), or are planning to develop one within the next 12 months (11%). These policies and statements address DEI considerations beyond standard Equal Employment Opportunity policies maintained by all firms.

- Race, Ethnicity and Gender Diversity: As a percentage of the total number of investment managers, the endowment has approximately:

    - 11% of investment managers that have at least 50% ownership by BIPOC (Black, Indigenous, and People of Color) and/or women (representing 12% of endowment assets)
    - An additional 9% that have at least 20% but less than 50% ownership by BIPOC and/or women (representing 6% of endowment assets)
    - An additional 16% that have greater than 0% but less than 20% ownership by BIPOC and/or women (representing 7% of endowment assets)

- There has been an increase in the number of diverse-owned managers in the endowment in recent years:
    - 80% of the investment managers with at least 50% ownership by BIPOC and/or women have been added to the endowment within the last five years
    - 75% of the investment managers with at least 20% but less than 50% ownership by BIPOC and/or women have been added to the endowment within the last five years
    - 86% of the investment managers with greater than 0% but less than 20% ownership by BIPOC and/or women have been added to the endowment within the last five years

- The survey data also revealed inequity across BIPOC firm equity owners and senior investment professionals. Specifically, we note that individuals who identify as Black and/or African American are the most underrepresented in terms of BIPOC firm equity owners and senior investment professionals. Individuals who identify as Non-Black Hispanic and/or Latino are also underrepresented in terms of BIPOC firm equity owners and senior investment professionals. Individuals who identify as Asian comprise a disproportionate majority of BIPOC firm equity owners and senior investment professionals.

- Additionally, a small amount of ownership by individuals who identify with two or more races or ethnicities was reported, and no ownership by individuals identifying with other categories was reported.

Summary Conclusions and Future Considerations

Below we provide a summary characterization of the extent to which ESG and DEI is integrated into the endowment investment process and investment portfolio, and make specific suggestions for areas of discussion and consideration for further action. The Investment Committee of the Board of Managers will be discussing these topics at its December 2020 meeting.

Environmental, Social, and Governance

- The survey data show strong influence of ESG considerations on investment practices across the endowment, to the extent controllable under the endowment structure of commingled fund investments

- Future considerations for discussion with regard to ESG include:
    - Additional actions to further reduce fossil fuel exposures, along with the evaluation of challenges presented by such actions
    - Consideration of explicit restrictions on fossil fuel/traditional energy-specific investments
    - Expansion of ESG integration by prioritizing opportunities to invest in sectors such as renewable and alternative energy strategies, or broad-based dedicated ESG strategies

Diversity, Equity, and Inclusion

- Based on survey data, investment managers that are at least 50% BIPOC and women-owned firms are represented in the endowment at 12% of total assets. While this level is greater than the overall industry representation, there is room for further improvement.

- Future considerations for discussion with regard to DEI include:
    - Expanding investment manager sourcing to include more representation from investment firms with greater BIPOC and female representation across firm ownership and/or senior investment roles
    - Additional evaluation regarding how investment firms consider DEI within their investment process and with regard to their underlying portfolio companies
    - Further communication with current and prospective managers on the importance of DEI to Haverford and expectations for further progress within each investment firm in the endowment portfolio

The full survey report is available on the following pages.

ESG Survey Results and Commentary

The ESG portion of our questionnaire surveyed investment managers on ESG integration in policy and in practice, and specifically sought to identify certain industry exposures within the portfolio. The response data provided a better understanding as to how managers explicitly incorporate ESG factors into investment analysis and decision-making practices. The survey also enabled us to estimate total underlying exposures to certain industries. Industry focus for this survey centered primarily on fossil fuels and private prisons, given these industries have been most recently highlighted as areas of concern among Haverford community members. This section presents the results of the ESG survey, along with commentary on relevant industry exposures in the endowment.

With regard to whether endowment investment managers maintain a formal ESG Policy or Statement, 64% of investment managers maintain a formal ESG Policy or Statement, with another 5% expecting to develop such a policy within the next 12 months (Figure 1). In addition, 30% of investment managers are signatories to the United Nations Principles for Responsible Investing ("UNPRI") (Figure 2)[2].

Fig. 1: Percentage of Managers with ESG Policy

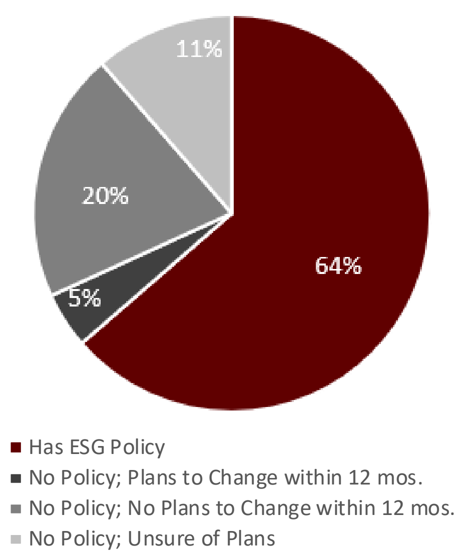
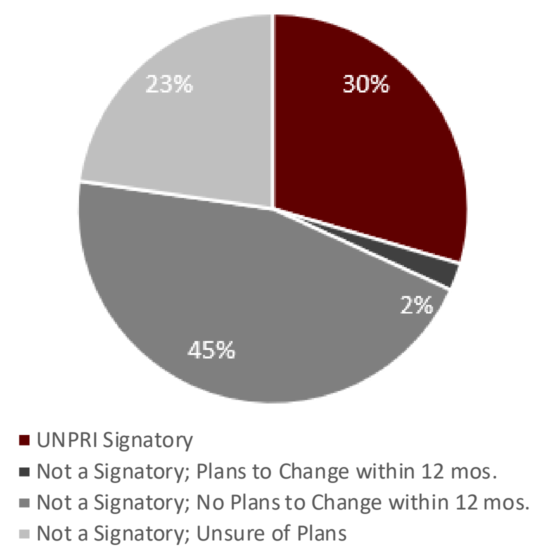


Fig. 2: Percentage of Managers Signing UNPRI



In addition to formalized ESG policies, we surveyed investment managers on frameworks for implementing ESG factors into investment practice. Survey questions centered on the type of implementation methodology employed (Figure 3), the number of methodologies employed by an individual manager (Figure 4), whether such methodologies were supported by qualitative and/or quantitative analyses (Figure 5), and the frequency of ESG-specific reporting (Figure 6). The survey showed that 61% of investment managers employed at least one ESG implementation method in the investment process. Furthermore, among the managers that implemented ESG into the investment process, it was most common for managers to employ three different methods, with ESG Integration and Active Ownership being the most frequently employed.

[2] See Appendix for definition of UNPRI.

In terms of ESG-specific reporting, 27% of investment managers provide regular (annual, bi-annual, quarterly, and/or monthly) reporting. Those reporting on a regular basis were most likely to do so on an annual basis. 18% of managers provided ESG reporting only on request, and 55% do not currently provide ESG reporting.

Fig. 3: Percentage of Investment Managers Employing Specific ESG Implementation Methods[3]

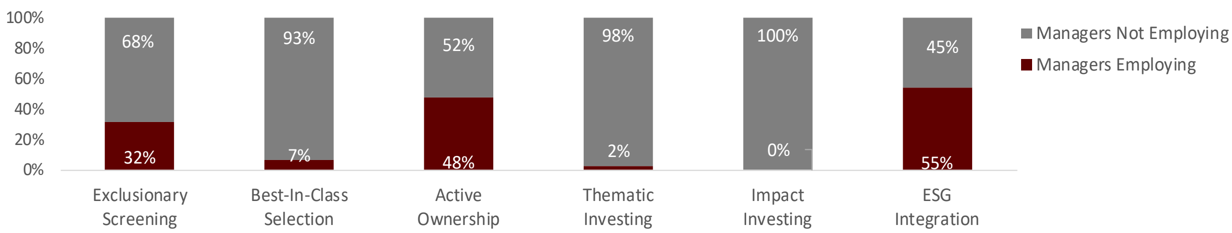


Fig. 4: Percentage of Managers Employing Multiple ESG Implementation Method[4]

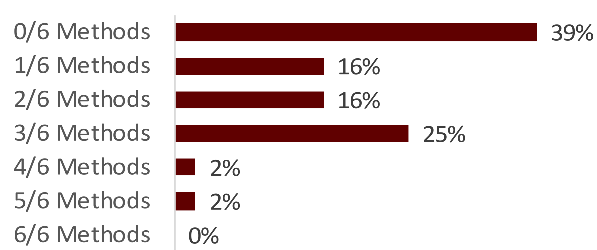


Fig .5: Percentage of Managers Incorporating Quantitative and/or Qualitative ESG Analysis[4]

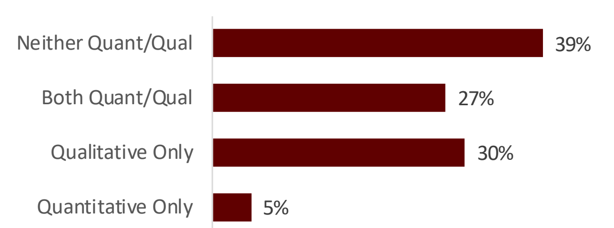
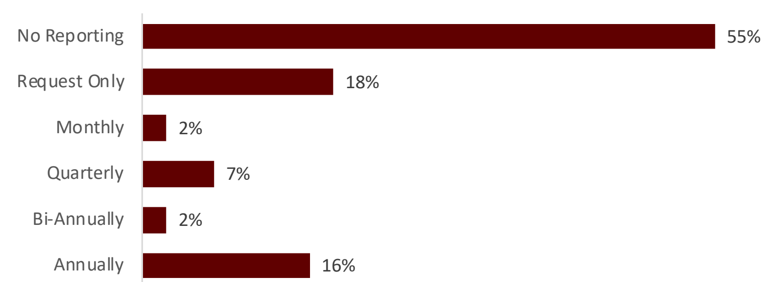


Fig. 6: Frequency of Manager ESG Reporting[4]



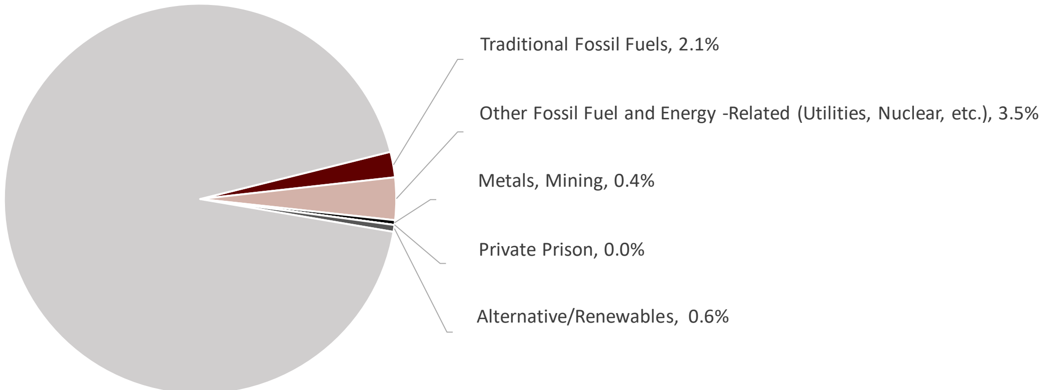
The survey requested that investment managers provide underlying portfolio exposures to specific industries, including energy-related industries and the private prison industry. Given that the endowment invests entirely in commingled funds, we aggregated total exposures of underlying holding of the funds, across all asset classes (Figure 7). We note that these aggregate exposures are specific to a single point in time, and will vary to a degree over time based on changes to fund holdings and the amount of capital invested in each fund.

Based on underlying investment fund exposures, we estimate that, via commingled funds, the endowment has approximately 2.1% of total assets invested in traditional fossil fuel companies, 3.5% invested in other energy-related companies (e.g., utilities, nuclear, energy infrastructure), 0.4% invested in metals and mining companies, and effectively zero (0.001%) invested in private

[3] See appendix for definitions of ESG implementation methods.
[4] In Figures 4, 5, and 6, managers that did not respond were included as employing 0/6 methods, employing neither quantitative nor qualitative analysis, and providing no ESG reporting, respectively.

prison companies. Approximately 0.6% of the endowment is invested in renewable and alternative energy assets.

Fig. 7: Portfolio Exposures to Select Industries



The vast majority of the endowment's exposure to these industries is through both indexed and actively-managed fund investments in liquid, publicly-traded investments, as the College does not have a history of significant commitments to private, illiquid energy funds. The endowment's single, dedicated private investment to a diversified energy strategy was made in 2006, and has only one asset remaining, which represents 0.02% of the total endowment and is expected to be exited by the fund within the next 12-24 months. At such time, the endowment will have no dedicated private energy funds remaining. Separately, we also note that the endowment exposure to other energy-related companies has dropped from 3.5% as of June 30, 2020, to 2.2% as of September 1, 2020, as a result of the exit from an energy-related infrastructure fund.

We can make some comparisons of our energy exposures versus benchmarks and other institutions, although they are not ideal comparisons. For example, the endowment has lower exposure to the energy and utilities sectors than the MSCI All Country World Index (ACWI), which has exposures of approximately 3.2% to each of these sectors. Furthermore, the endowment has significantly lower exposure to dedicated private and public energy assets than a universe of approximately 160 endowments and foundations on which we have comparative data. The universe shows that over 85% of the institutions have dedicated private energy exposure, with an average exposure of 2.7%, and a range of 0% to 12.5%, versus our 0.02% remaining in a legacy asset. Some institutions maintain dedicated public energy exposure as well, with an average exposure of 0.9%, although this does not include energy-related exposures on a look-through basis to all funds, as we have measured.

Based on survey responses, the endowment has no exposure to companies that operate private prisons based in the U.S. Exposure to prison companies has been an ongoing subject of discussion among the Investment Committee, and the exit from a Real Estate Investment Trust index fund over the 2019-20 fiscal year reduced endowment exposure to U.S.-based prison companies from approximately 0.3% to zero as of June 30, 2020. Furthermore, the endowment has effectively zero exposure to companies that operate private prisons internationally. Underlying holdings of an international equity index fund, which is meant to provide broad exposure to all international equities and holds approximately 4,000 companies, results in effectively zero, or about 0.001%, exposure to internationally-based prison companies in the endowment. We recognize that this exposure exists due to the nature of an index fund investment in all publicly-traded companies, and we maintain open dialogues with investment managers regarding such underlying holdings. [5]

ESG Section Conclusion and Future Considerations

The increasingly widespread formalization of investment manager ESG policies, as well as minimal fund exposures to certain, scrutinized industries (e.g. fossil fuels, private prisons), reflect a strong influence of ESG factors across the endowment, within the structure of investing in diversified commingled funds. Exposure to these industries is generally minimized at this time, barring meaningful structural changes to the portfolio as well as changes to investment policy to raise these considerations above other factors for investment. The portfolio maintains no exposure to energy sector-specific funds, except the aforementioned single private asset (0.02% of the endowment) remaining from a 2006 private fund commitment that will soon be completed.

To further reduce exposure to fossil fuel companies in the endowment, Haverford would need to implement significant structural changes to the portfolio, including the discontinuation of investment in broad-based index funds, and any commingled funds that could ever have exposure to energy companies. At present, in accordance with the investment policy, diversified commingled fund investments are not excluded from consideration, but are examined on a case-by-case basis to determine if any meaningful, undesirable exposures could exist in the fund that would be contrary to the spirit of the policy that is in place.

Future considerations for discussion with regard to ESG include:

- Additional actions to further reduce fossil fuel exposures, along with the evaluation of any challenges presented by such an approach
- Consideration of explicit restrictions on fossil fuel/traditional energy-specific investments
- Expansion of ESG integration by prioritizing opportunities to invest in sectors such as renewable and alternative energy strategies, or broad-based ESG strategies

DEI Survey Results and Commentary

The DEI portion of our questionnaire surveyed endowment investment managers on the presence and maintenance of a formal DEI Policy, as well as the gender, racial, and ethnic diversity of firm ownership and employee bases. Our aim in collecting this data was to capture a view of BIPOC and female representation in firm ownership, senior-level roles, and junior-level roles, both in the context of individual managers, and collectively across the overall portfolio.

With regard to maintaining a formal DEI Policy or Statement, 41% of investment managers in the endowment maintain a formal DEI Policy or Statement, with another 11% expecting to develop such a policy within the next 12 months (Figure 8). These policies and statements address DEI considerations beyond standard Equal Employment Opportunity policies maintained by all firms.

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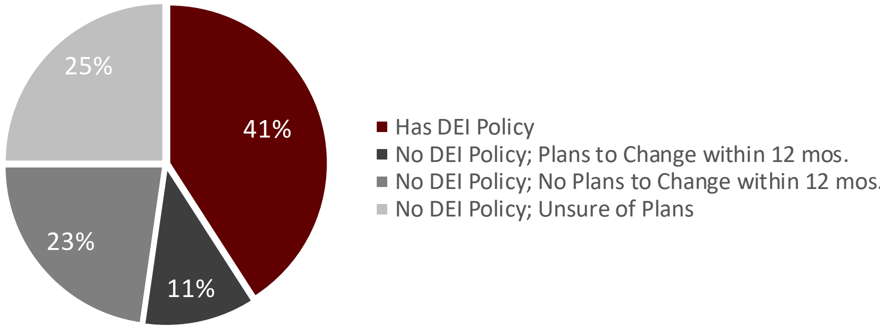
[5] Investment managers in the endowment that use computer-driven trading models own thousands of companies at any given time, and the companies in the portfolio change frequently. Due to the confidential nature of these trading strategies, the firms do not disclose holdings and thus, only estimates could be made with regard to exposures based on available information, and certain industry exposures could not be estimated for this analysis based on the information provided. Where possible, we applied the most conservative approach to identify the maximum exposure that these funds could have to certain industries: e.g., any "energy" exposure was assumed to be fossil fuel exposure. These strategies also deploy short positions in stocks, which may result in negative exposures to companies at any given time.

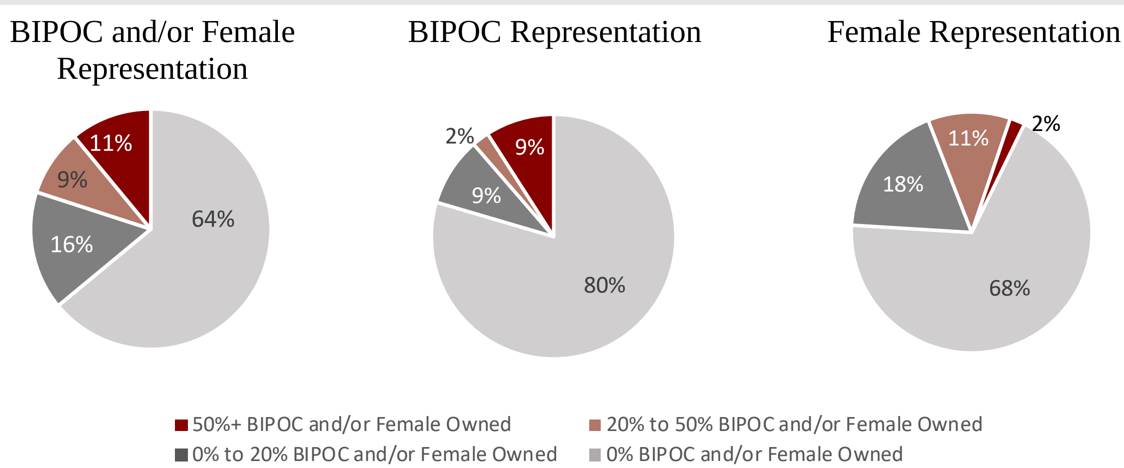
Fig. 8: Percentage of Investment Managers with DEI Policy



Looking at different levels of ownership, 11% of investment managers have at least 50% ownership by BIPOC and/or women (representing 12% of endowment assets), an additional 9% have at least 20% but less than 50% ownership by BIPOC and/or women (representing 6% of endowment assets), and an additional 16% have greater than 0% but less than 20% ownership by BIPOC and/or women (representing 7% of endowment assets). As a comparison, a recent Congressional report of the 25 largest endowments showed the percentage of assets managed by diverse-owned firms (50% or greater ownership) ranging from 5% to 35% of portfolios (no detail on the median or distribution of responses was provided, and 20 of 25 institutions provided data), and a 2019 study commissioned by the Knight Foundation highlighted in the Congressional report found that asset management firms owned by women and minorities manage just 1.3 percent of assets in the $69 trillion asset management industry.

Breaking the Haverford endowment data down further, in terms of racial and ethnic representation, 9% of investment managers have at least 50% ownership by BIPOC, an additional 2% have at least 20% but less than 50% ownership by BIPOC, and an additional 9% have greater than 0% but less than 20% ownership by BIPOC. In terms of gender representation, 2% of investment managers have at least 50% ownership by women, an additional 11% have at least 20% but less than 50% ownership by women, and an additional 18% have greater than 0% but less than 20% ownership by women. No firms reported ownership by individuals who identify as non-binary. While these percentages generally reflect equity ownership stake, we note that they are calculated based on the number of individuals in each category.

Fig. 9: Investment Managers by Proportion of BIPOC and/or Female Firm Ownership



With regard to employee bases, for senior investment professionals, 2% of investment managers have at least 50% BIPOC representation, an additional 20% have at least 20% but less than 50% BIPOC representation, and an additional 16% have greater than 0% but less than 20% BIPOC representation. Also, with regard to senior investment professionals, no investment managers have at least 50% female representation, an additional 16% have at least 20% but less than 50% female representation, and an additional 34% have greater than 0% but less than 20% female representation. The figures below provide the same level of detail for junior investment professionals and non-investment professionals.

The survey data also revealed inequity across BIPOC firm equity owners and senior investment professionals. Specifically, we note that individuals who identify as Black and/or African American are the most underrepresented in terms of BIPOC firm equity owners and senior investment professionals. Individuals who identify as Non-Black Hispanic and/or Latino are also underrepresented in terms of BIPOC firm equity owners and senior investment professionals. Individuals who identify as Asian compose a disproportionate majority of BIPOC firm equity owners and senior investment professionals. Additionally, a small amount of ownership by individuals who identify with two or more races or ethnicities was reported, and no ownership by individuals identifying with other categories was reported.

Fig. 10: Investment Managers by Proportion of BIPOC Firm Employee Base

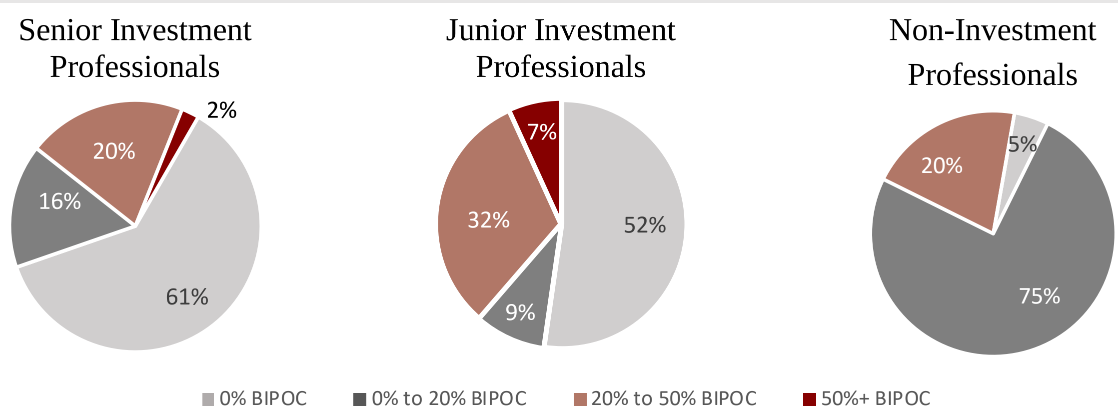
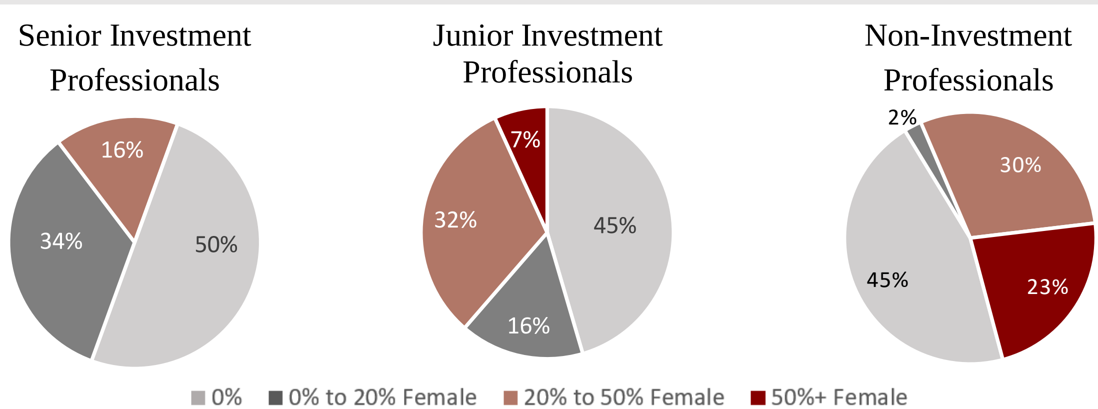


Fig. 11: Investment Managers by Proportion of Female Firm Ownership and Employee Base



The generally larger proportions of BIPOC and female investment professionals at junior levels suggests that while firms may be focusing on more inclusive recruitment at junior levels, structural and cultural barriers that preserve inadequate BIPOC and female representation at senior levels appear to remain intact. Although many firms seek to promote from within, it is too early to determine if diversity at junior levels will lead to better diversity at senior levels over time.

The survey data does demonstrate an increase in the number of diverse-owned managers in the endowment in recent years: 80% of the investment managers with at least 50% ownership by BIPOC and/or women have been added to the endowment within the last five years; 75% of the investment managers with at least 20% but less than 50% ownership by BIPOC and/or women have been added to the endowment within the last five years; and 86% of the investment managers with greater than 0% but less than 20% ownership by BIPOC and/or women have been added to the endowment within the last five years. By comparison, only 50% of the investment managers with no ownership representation by BIPOC and women were added to the endowment within the last five years.

DEI Section Conclusion and Future Considerations

Based on survey data, investment managers that are at least 50% BIPOC and women-owned firms are represented in the endowment at 12% of total assets. While this level is greater than the overall industry representation, there is room for further improvement. We note that almost half of investment managers currently maintain formal DEI policies or statements, which enables the College to hold specific investment managers accountable for progress towards greater BIPOC and female representation in their own firms, and to further communicate the progression of the investment industry with these values to firms that do not maintain policies.

Future considerations for discussion with regard to DEI include:

- Expanding investment manager sourcing to include more representation from investment firms with greater BIPOC and female representation within firm ownership and/or within senior investment roles
- Additional evaluation regarding how investment firms consider DEI within their investment process and within their underlying portfolio companies
- Further communication with current and prospective managers on the importance of DEI to Haverford and expectations for progress within their firms

Appendix

1. The UNPRI is a United Nations-supported international network of investor signatories. In signing, the investor signatories demonstrate intent to implement the UNPRI's six voluntary and aspirational principles:

   Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

   Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

   Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

   Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

   Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

   Principle 6: We will each report on our activities and progress towards implementing the Principles

2. ESG implementation methods, as defined by CFA Institute's *Environmental, Social, and Governance Issues in Investing*:

   A) **Exclusionary Screening:** Avoidance of securities on the basis of moral values (e.g., products or services involving alcohol, tobacco, gambling, and sustainability or human rights concerns). In such exclusions, entire sectors may be excluded. Where such values-based avoidance is built into the governing legislation (e.g., a ban on financing controversial weapons), exclusionary screening can also become a legal obligation.

   B) **Best-in-Class Selection:** Allocation of investment preference to companies with better or improving ESG performance relative to sector peers. It could be implemented on either the level or the change in ESG performance—that is, investing more in companies with better ESG performance levels or momentum relative to sector peers.

   C) **Active Ownership:** Practice of dialoguing with companies on ESG issues and exercising both ownership rights and voice to effect change. Engagement with a company could be for monitoring or influencing outcomes and practices regarding ESG issues.

   D) **Thematic Investing:** Social, industrial, or demographic, trend-based investing (e.g. clean tech, green real estate, sustainable forestry, agriculture, education, and health).

   E) **Impact Investing:** Investment with the disclosed intention to generate and measure social and environmental benefits alongside a financial return. According to Global Impact Investing Network, the practice of impact investing has four core characteristics: (1) investors intend to have a social and/or an environmental impact, (2) investments are expected to generate a financial return on capital and, at a minimum, a return of capital, (3) investments are to generate returns that range from below market to risk-adjusted market rate, and (4) investors are committed to measuring and reporting the social and environmental impacts.

   F) **ESG Integration:** Systematic and explicit inclusion of ESG risks and opportunities in investment analysis. Unlike the best-in-class method, ESG integration does not necessarily require peer group benchmarking or overweighting (underweighting) the leaders (laggards). Similarly, ESG integration does not require any *ex ante* criteria for inclusion or exclusion.