**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*

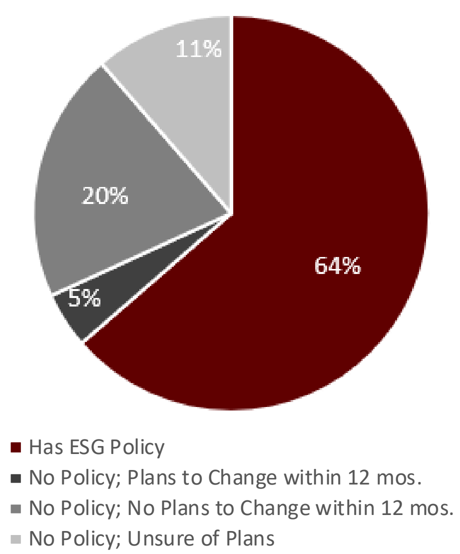
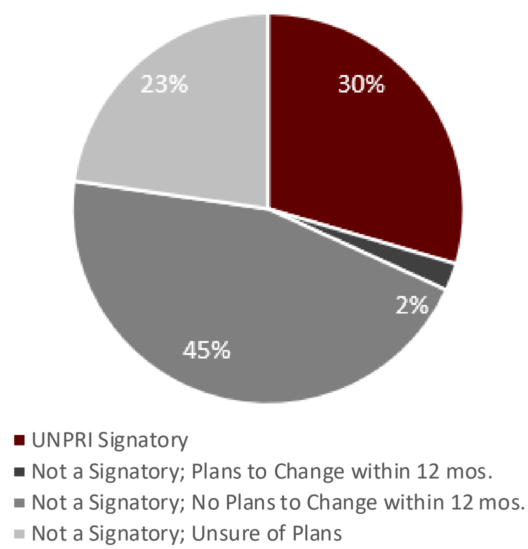



*Fig. 2: Percentage of Managers Signing UNPRI*




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]

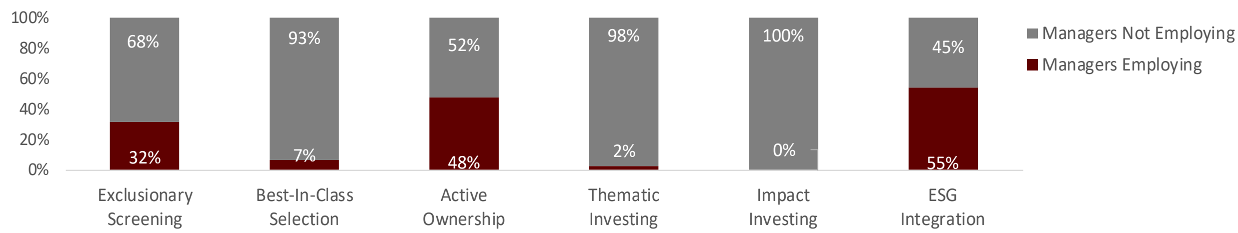



*Fig. 4: Percentage of Managers Employing Multiple ESG Implementation Method*[4]

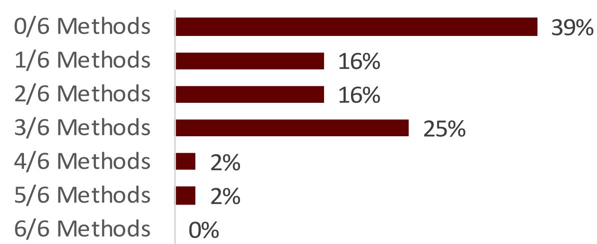



*Fig .5: Percentage of Managers Incorporating Quantitative and/or Qualitative ESG Analysis*[4]

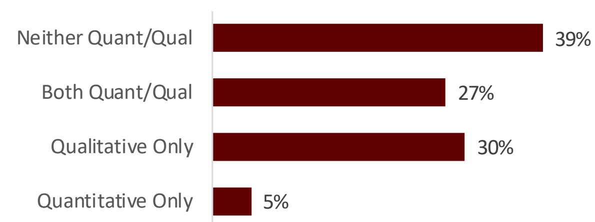
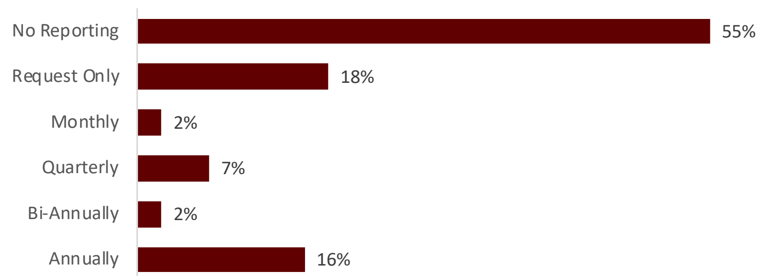



*Fig. 6: Frequency of Manager ESG Reporting*[4]



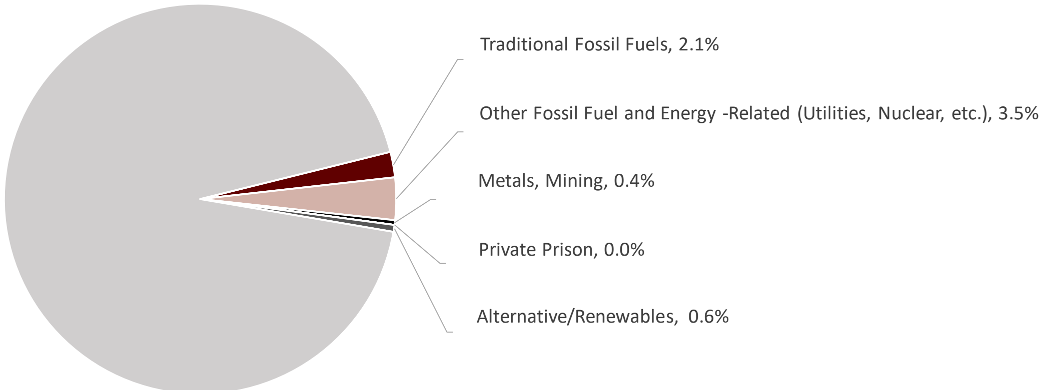

The survey requested that investment managers provide underlying portfolio exposures to specific industries, including energy-related industries and the private prison industry. Given that the endowment invests entirely in commingled funds, we aggregated total exposures of underlying holding of the funds, 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

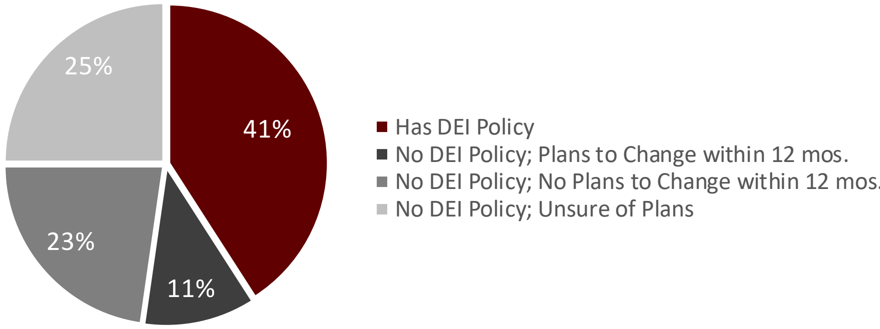
**DEI Survey Results and Commentary**

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.

[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.

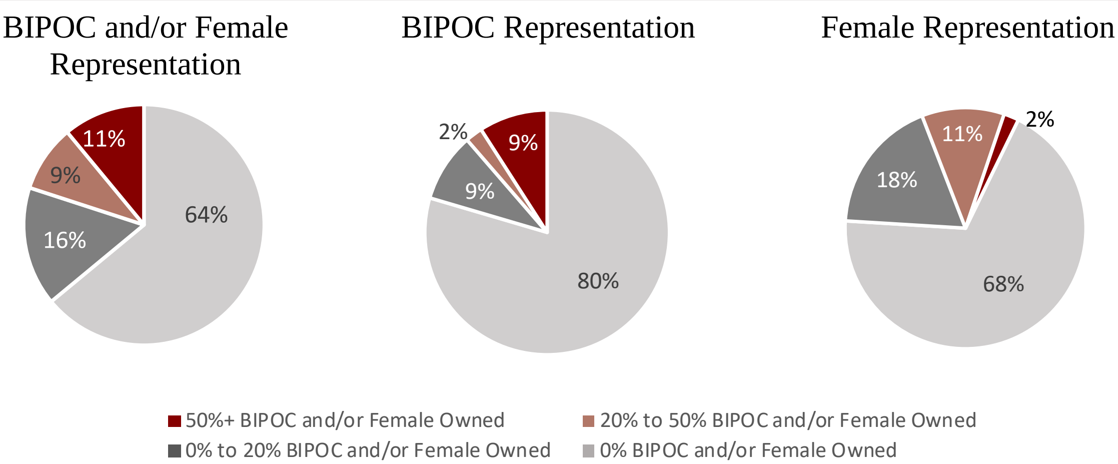
*Fig. 8: Percentage of Investment Managers with DEI Policy*




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*

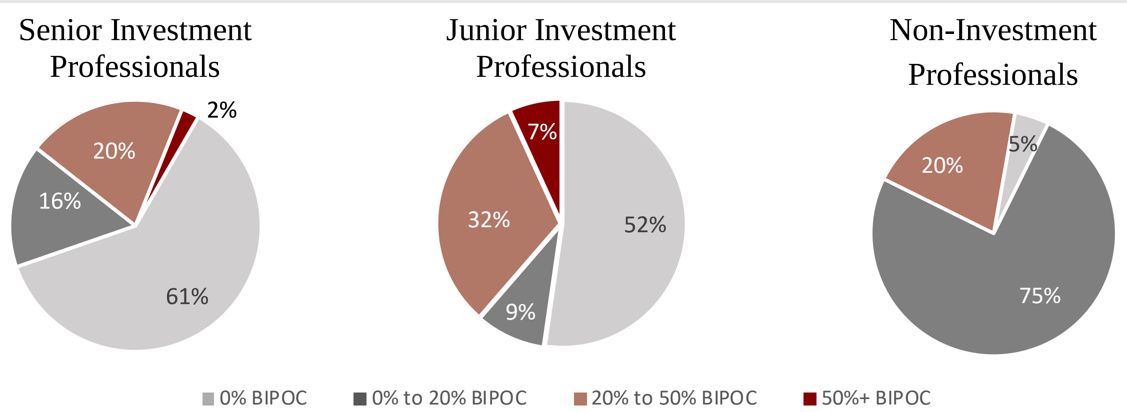
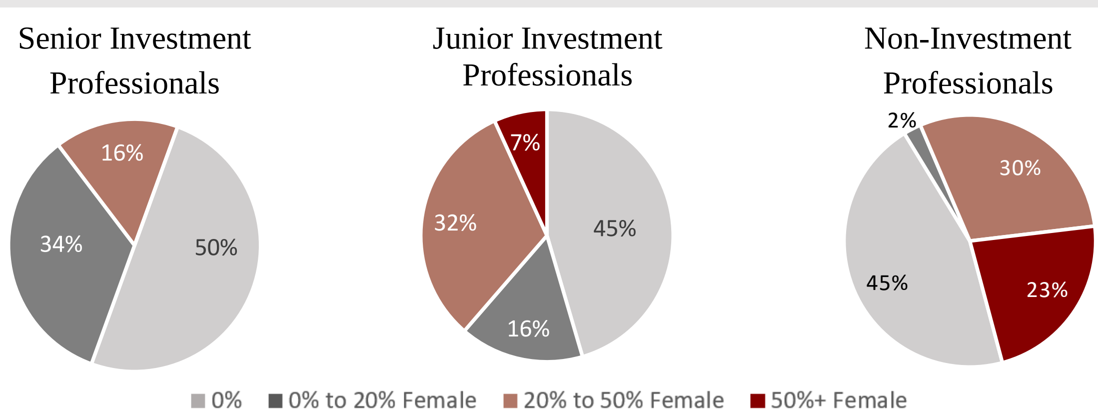



*Fig. 11: Investment Managers by Proportion of Female Firm Ownership and Employee Base*




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.