

Carleton College  
One North College Street  
Northfield, Minnesota 55057

The Board of Trustees

November 12, 2015

Dear Members of the Carleton Responsible Investment Committee (CRIC),

I am responding on behalf of the College's Board of Trustees to your September 25, 2015 report to the Investment Committee. In doing so, I first want to acknowledge the hard work that members of CRIC put into this report and to affirm the important role that CRIC has and will continue to play at Carleton. As you know, CRIC advises the Investment Committee regarding ethical, social, and environmental issues that arise in the management of the College's endowment. While CRIC's primary function has been to convey voting recommendations on shareholder resolutions, CRIC may also offer advice on the transparency of the investment portfolio, the ethical nature of particular stocks, investments in social funds, and community investment opportunities. Your September report is consistent with CRIC's formal charge and responsibilities, and the Board respects and welcomes such engagement. The Investment Committee was also pleased to give CRIC a further opportunity to discuss and expand upon its report and recommendations during the Investment Committee's October 22 meeting. In keeping with our established governance processes, the Investment Committee carefully evaluated your report and recommendations, and then brought these matters to the full Board, as well.

The central recommendation of your recent report is that the College divest from fossil fuel direct holdings in its endowment. You also proposed that the Committee thoroughly explore the possibility of integrating environmental, social, and governance (ESG) factors into Carleton's investment strategy, along with several associated recommendations about particular aspects of ESG investing. Consistent with CRIC's divestment recommendation, we understand that there are other Carleton students, faculty, staff, and alumni who also favor divestment. A number of these community members have signed petitions and written or spoken to Trustees in support of this approach.

The Board of Trustees has carefully considered these issues and has reached several conclusions, as explained below. Our response to CRIC is based on our understanding of our roles as fiduciaries, responsible for the management of Carleton as an institution and its endowment.

### **Climate Concerns and Environmental Stewardship**

Climate change—and wise and appropriate responses to it—is a fundamental issue of our time. Because this issue is so important and visible, we must be especially thoughtful about Carleton's proper role and actions.

The Trustees are in broad agreement that there is clear and compelling scientific evidence of the existence and severity of climate change. We agree that the use of fossil fuels has had serious negative environmental consequences. We also agree that climate change is an exceedingly complex issue that does not lend itself to simple answers or unidimensional solutions. Global, national, local, institutional, and individual actions will all be required to secure the health of our planet.

As an institution, the College understands and endorses the importance of environmental stewardship. Carleton has taken a series of concrete actions in recent years to reduce its carbon footprint:

- We have erected two utility-scale wind turbines that generate the equivalent of over half of Carleton's electric load.
- We have constructed three LEED Gold buildings (The Weitz Center for Creativity, James Hall, and Cassat Hall).
- We have committed to a net-zero energy addition goal for our planned new integrated Science complex.
- We have completed environmentally-sensitive renovations of older buildings (e.g., Evans Hall and the Chapel).
- We have designed campus landscaping and parking areas to reduce wastewater runoff.
- We have carried out a series of lighting efficiency projects, installing new LED fixtures, occupancy sensors, and timers in sites across campus (e.g., Gould Library, LDC).
- We have created both a full-time Manager of Campus Energy and Sustainability position and several student Sustainability Assistant positions. The individuals in these roles advocate for improved energy management and sustainability, and help educate the Carleton community about how our actions impact the environment.

We have woven environmental stewardship into our plans for Carleton's future and the choices we make about College operations:

- Carleton was a charter signatory of the American College and University Presidents Climate Commitment in 2007.
- The College adopted a Climate Action Plan (<https://apps.carleton.edu/sustainability/about/cap/>) in 2011, which sets a goal of carbon neutrality by 2050. This Climate Action Plan was the result of an inclusive College-wide process to develop wise operational and educational strategies for our community.
- Consistent with our Climate Action Plan, our progress toward meeting our goal of carbon neutrality is tracked rigorously and shared publicly.
- The Climate Action Plan is also reviewed regularly to identify better ways to reach carbon neutrality (and to do so sooner).
- As noted previously, new buildings and construction on campus have and will continue to focus keenly on efficient energy usage.
- We are currently developing a Utilities Master Plan for the College that will further advance our goal of carbon neutrality.

We have consistently encouraged and supported, with College funds and other resources, smart ideas generated by student leaders and activists to reduce the College community's carbon footprint:

- Student efforts to “Take Back the Tap” have reduced plastic water bottle usage on campus.
- Custodians and Sustainability Assistants have spearheaded a community waste program to expand composting, lessen the use of plastic trash can liners, and increase awareness about the amount and type of waste our campus produces.
- The Food Recovery Network, a campus and community partnership, was launched to decrease food waste while addressing hunger challenges in Rice County.
- Our campus food service, Bon Appetit, sources many foods through local providers.
- Students created and care for the edible public landscaping/garden, “Eat the Lawn.”

Most significant and enduring of all, we have and will continue to support environmental stewardship through research and teaching. Carleton’s faculty educate students, the scholarly community, and the broader public about the causes and impact of climate change and wise responses to such change. Carleton students are also involved in research on climate change, energy technology, environmental policy, and related topics. We are confident the research and engagement of our faculty, students, and alumni will continue to enhance our knowledge of these pressing issues and stimulate innovative solutions.

### **Board Response on Divestment**

While respecting CRIC’s and others’ views on this matter, for the reasons explained below the Board does not support your Committee’s divestment recommendation and has voted not to divest.

### **Fiduciary Responsibilities and Intergenerational Considerations**

The Board of Trustees has the fiduciary responsibility to manage Carleton’s endowment and the economy of the College. Indeed, the Board has a legal obligation to invest prudently and to exercise a duty of care to generate income that will support Carleton in perpetuity. The College’s endowment provides approximately 20% of Carleton’s current annual operating budget. Accordingly, wise and effective long-term stewardship of this College resource is critical for the achievement of Carleton’s goals. Furthermore, it is our hope and intention that our endowment will return to future generations an ever-greater proportion of the College budget, allowing Carleton to continue to innovate and support students and faculty in our educational mission.

We believe that reducing the universe of possible investments will have a negative impact on long-term investment returns. As you noted in your report, advocates and interested parties on both sides of the divestment debate point to different studies, often with different benchmarks and time periods, in support of different outcomes. These studies are inconsistent and perhaps muddled, but at this time it seems to us that there is no consensus that divestment will not have meaningful fiscal costs. Carleton’s direct investments, which are the focus of the CRIC recommendation, represent only about 14% of the endowment. If divestment were

extended to commingled investment funds, the logical end point of the case currently being made, the impact on the universe of possible investments would be compounded.

### **The College's Role in Political and Moral Issues**

Carleton's Board—and, more generally, the College as an institution—has a long history of not taking positions on issues that are not clearly academic and that do not directly pertain to and advance the College's core educational mission. In accordance with that mission, Carleton principally exists to educate students so that they—as individuals—will be able to act wisely and thoughtfully. The College also exists to create and share knowledge through faculty scholarship and creative work. These are our areas of expertise. Nondenominational colleges and universities like Carleton are not political actors that seek to shape directly public policy, nor are they religious organizations that seek to define, promote, and enforce morality. The delicate niche a college like ours occupies in society can be easily damaged and its credibility harmed if it is perceived as exceeding its proper mission.

Furthermore, opinions among the Carleton community are never unanimous, and we must guard against inhibiting the freedom of expression of those who hold different or minority views. Thus, even when the “correct” side of a substantive debate seems clear, we believe it is inappropriate for the College to take an institutional position on most matters of political or moral policy. To the extent fossil fuel divestment is intended as an overt political and/or moral statement, the case for an institutional stance on such matters is generally weakened. We should continue to be very circumspect about inserting Carleton into public and political debates about what is moral and correct.

### **Divestment as a Strategy for Change**

We believe thoughtful individuals with serious concerns about the environment can differ on the question of the wisdom and effectiveness of fossil fuel divestment.

We do not believe fossil fuel companies would change their behavior in response to Carleton selling its shares. The energy industry is vast and highly fragmented, and its sources for financing its operations are extensive. Fossil fuel companies may be influenced by regulation, product prices, economic conditions, and even shareholder resolutions, but it is highly unlikely that they will cease production in response to divestment. In short, we do not think divestment is an effective strategy to reduce demand for or prevent fossil fuel production.

Furthermore, it is highly speculative that divestment of fossil fuel companies' stocks would diminish those companies' political clout and thus make passage of legislation to combat climate change more likely. Banning companies from our portfolio on a single metric, such as holding carbon reserves, would fail to account fully for the complexity of what is required in terms of public policy and capital allocation to make our world more sustainable.

Finally, by the act of selling shares, we would lose our voice in shareholder governance, which Carleton has practiced to good effect.

## **Corporate Governance as a Strategy for Change**

We think a far more appropriate strategy than divestment and disengagement is supporting shareholder resolutions to effect change. Carleton has and can continue to engage with corporations where we are shareholders regarding their business practices related to sustainability (and other issues). We can try to persuade companies to behave wisely if we maintain an ownership stake. CRIC has played an important role here in the past with many companies. We hope, with CRIC's continued thoughtful analyses, to continue to exercise this right and responsibility of corporate ownership in smart and productive ways.

## **Environmental, Social, and Governance (ESG) Investing**

CRIC's report raises the question of whether Carleton should embrace ESG investing. At this time, the rubric of ESG investing covers many different values and approaches, premised on the view that environmental, social, and corporate governance factors can affect financial outcomes and should therefore be considered alongside traditional financial analysis. To the extent that ESG investing is distinct from divestment (e.g., it involves integrating the three ESG factors into investment analysis, to the extent that they are material to investment performance), the Investment Committee will evaluate how environmental, social, and governance principles affect our investments.

## **Effective, Mission-Appropriate Ways the College Can Address Issues of Climate Change**

Carleton currently employs a variety of effective, mission-appropriate, strategies to address the acute and vexing challenges associated with climate change. Among the most significant of these approaches is addressing climate change through teaching. We are committed to educating students about the issues of climate change and providing them with the intellectual skills they need to analyze and confront these societal and global problems. Many Carleton students already engage in active learning and scholarly work on climate change through courses, independent studies, comps, and fellowship opportunities. The College's Strategic Plan emphasizes promoting and expanding such learning.

We can also promote further discovery and broader understanding of climate change through faculty (and faculty-student) research. Such scholarship generates deeper knowledge of and passion about environmental issues and can lead—through a wiser and more engaged global citizenry—to intelligent and forward-looking public policy solutions, both domestically and abroad. Many Carleton-generated research findings are already shared at professional conferences and public events, and the College seeks to increase these opportunities for students.

In addition to the academic work of faculty and students, there are practical and significant steps the College can take now as an institution to implement (and, if possible, to accelerate) our Climate Action Plan, thereby lowering our campus carbon footprint. The Plan includes target emission levels for 2020, 2025, and 2030, as well as a comprehensive list of the most and least cost effective means to reduce our carbon footprint. Further discussion and

review of such goals seems both appropriate and productive.

Both the College's Strategic Plan and Facilities Master Plan endorse the importance of sustainability in College operations. Accordingly, the Board notes that the forthcoming Utilities Master Plan proposes a multi-million dollar investment to replace the main campus boilers with a diverse, more energy-efficient system that includes large ground-source heat pumps and a combined heat and power co-generation unit. This will significantly reduce the College's reliance on fossil fuels. The Board is eager to consider how we might bring such a project to swift fruition.

Finally—and significantly—the kinds of environmental education discussed above can and should lead all members of the Carleton community to reflect on how our personal choices and actions contribute to environmental stress and climate change. Each of us, as individuals, has the ability to reduce our carbon footprint and to inspire behavioral change by others. We can envision that campus-wide campaigns can help raise awareness and challenge status quo patterns of carbon consumption.

## **Conclusion**

This response articulates the Board of Trustees' analysis of the current circumstances and its sense of the best path forward for our College. Carleton is ever-committed to the highest levels of excellence in liberal arts education. Inherent in this mission is a call for faculty and students to study deeply the critical issues of our time through the lenses of relevant disciplines and perspectives, and to equip students to navigate even the most complex social and intellectual terrains in their life after Carleton. To this end, we expect that the College community will continue to engage passionately on issues of climate change, its implications, and how to mitigate them. Carleton and its stakeholders will also continue to work together to invest proactively in initiatives that increase the College's sustainability and that add to the body of knowledge on these important topics. Members of the community who have been at the vanguard on this subject will surely continue to examine and debate this set of topics. The Trustees sincerely appreciate their involvement and contributions, as we do the thoughtful dialogue with CRIC.

Sincerely,

A handwritten signature in cursive script, reading "Jack W. Eugster".

Jack Eugster '67 P'02  
Chair, Board of Trustees