

Carleton College
One North College Street
Northfield, Minnesota 55057

May 9, 2016

Dear Mr. Weitz and members of the Investment Committee,

The members of CRIC were disappointed by the Board's decision last fall to reject our recommendation that Carleton divest from its direct holdings in the top 200 fossil fuel companies. We agree with Chairman Eugster (November 12, 2015 letter to CRIC) that "thoughtful individuals with serious concerns about the environment can differ on the question of the wisdom and effectiveness of fossil fuel divestment" and that divestment is not as "straight-forward" as some have put it. In our report, we sought to outline why we believed Carleton should still divest despite these nuances. We recognize that the decision to divest rests with the Board alone. Nevertheless, we were disheartened that the Board's response did not more clearly address *why* our arguments for divestment failed to clear the "high bar" against which the Board is willing to make investment decisions based on moral concerns. Indeed, we felt that the tone of the November letter took a step back from the more open-minded tenor of Chairman Weitz's March 2, 2015 letter to CRIC. We also believe the process of considering divestment lacked sufficient dialogue between CRIC and the Investment Committee, and this may have contributed to the apparent disconnect.

Understanding the "High Bar" Around the Issue of Divestment

In his March 2015 letter to CRIC, Chairman Weitz notes that Carleton as an institution has been "reluctant" and "circumspect" about taking political or moral positions and that "the bar which divestment advocates seek to clear is thus very high." He continues by saying, "However, new questions about socially responsible investing do periodically arise, and the wisdom/propriety of fossil fuel divestment falls within CRIC's purview." Implied is the understanding that while Carleton is generally against divestment, it would be open to the possibility when the case for it is strong, or in other words, when the "high bar" is cleared. This would require convincing the Board that a particular issue "is different from other political issues on which [Carleton] previously declined to take an institutional stance."

It was with that charge that CRIC prepared and submitted its report. CRIC sought to make the case that the overwhelmingly urgent nature of climate change and the historically obstructionist stance of the fossil fuel industry raises fossil fuel divestment above that high bar. That the Investment Committee rejects our argument is not objectionable in principle, but what is distressing to CRIC is that the Board seems to have backtracked (at least in tone) on the stance it took in March, 2015. Chairman Eugster writes in his November letter: "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," implying that any request for divestment can be rejected simply because it would require the College to take a political or moral position. The tone in March seemed to suggest an invitation for CRIC to

establish a moral case for divestment, while advising that it would not be easy. In November, the tone seems to be that it really isn't possible.

We therefore see the March and November letters as being inconsistent, and it is unclear to us whether the Board believes that fossil fuel divestment is unwarranted because the moral bar has not been cleared or because Carleton simply does not take moral or political stances. These two positions have vastly different implications for CRIC and the College. If it is the latter position, then most of the guidance in the March letter is misleading and any argument for divestment becomes futile. CRIC, therefore, would welcome more clarity on the Board's position on fossil fuel divestment and its policy on divestment in general. Both the March and November letter affirm CRIC's role in taking on divestment issues, and this clarification will help CRIC better understand and fulfill its role when these types of issues arise in the future.

Dialogue and Miscommunication Regarding Divestment

Our reading of some parts of the Board's November letter suggests that there was some misunderstanding or miscommunication between CRIC and the Investment Committee. One example, which we mention above, involves the criteria used for rejecting a divestment recommendation. Other examples include interpretations of our arguments in the November letter that we feel did not necessarily follow from the claims made in our report. These include the assertions: (1) that the logical end point of our recommendation is divestment from commingled funds, (2) that we advocated for divestment using only a single metric, and (3) that we believed that fossil fuel companies would change behavior or cease production specifically in response to Carleton divesting. We would argue that these do not accurately represent the positions in our report. Closer engagement in the future may help us reduce or entirely avoid this kind of misunderstanding.

CRIC also believes the institutional process and arrangement for considering divestment, especially the engagement between CRIC and the Investment Committee, would have been improved by more dialogue. CRIC appreciated our time before the Investment Committee at the October 2015 Board meeting. However, when important and nuanced issues such as divestment are being discussed, more open and extensive dialogue is necessary.

CRIC feels that more frequent and direct communication between CRIC and members of the Investment Committee would help us better fulfill our duties going forward. To that end, we propose that, in addition to our annual winter meeting, one or two members of the Investment Committee attend one CRIC meeting each fall and spring term. These meetings can be used to create a space favorable to informal conversation on a wide range of issues. We feel this new process would help us understand the Investment Committee's perspective on various issues, and vice versa. This would allow CRIC to better function as the intermediaries between the campus and the Investment Committee.

Moving Forward on ESG

While the Board rejected divestment, CRIC was encouraged by the Board's commitment to explore ESG investing and is eager to hear more about the specific steps taken in this direction.

We support the initial exploration done by the Investment Office and would support the Board taking a number of positive steps toward the creation of an ESG policy:

1. We could write a letter to our managers similar to what David Swensen sent Yale's managers, communicating an expectation that they take into account ESG factors that could have a financial impact.
2. The Investment Office could formally incorporate ESG factors into its investment manager diligence, including a formal assessment of how managers incorporate ESG into their investment process.
3. Carleton could develop ESG related guidelines and expectations and apply them to managers of separately held accounts.

At the very least, we believe that the Investment Office should ask all of our fund managers for their current ESG policy statements (where applicable) so that a formal assessment can be done of how managers incorporate ESG into their investment process.

Because there may have been some misunderstanding in our report about what ESG means to CRIC, we would like to clarify our understanding of ESG. CRIC respects that the Board is reluctant to take any action that could adversely affect endowment performance, such as putting "limits on the investment universe." Thus it is important to note what ESG is not. ESG is not a screen based solely upon an underlying business model or product line of a company in question. Rather, ESG takes into account a wider range of relevant factors that could affect an investment's performance. We believe Carleton can, and should, explore ESG investing to the fullest extent, and should ultimately create an ESG statement and/or implement an ESG policy aligned with the College's values and mission.

CRIC's Role as Intermediaries Between the Carleton Community and the Board

Finally, CRIC would like to update the Board on our plans for engaging the Carleton community in our work. CRIC is currently conducting another survey of students, faculty, staff, and alumni. Many of the questions we are asking mirror those asked in the Fall 2013 survey. Our goals with this survey are to, (1) gather data regarding the community's understanding of Carleton's endowment, CRIC, and our role on campus, (2) gather data regarding views on divestment, both from fossil fuels and as a general strategy, and (3) analyze whether there has been any shift in opinion regarding divestment since our Fall 2013 survey. Following an analysis of results from this survey, CRIC will determine what other community engagement/education efforts to undertake.

Conclusion

Let us finish by giving our thanks to you for your dedication to the College. The care with which you approach your roles as trustees is evident in your responses to us thus far. We look forward to working with you to build upon the dialogue we have already begun.

Committee Members

David Alberg (Co-Chair, Fac., '85)
Douglas Marshall (Faculty)
Fred Rogers (Ex Officio, '72)
Janna Wennberg ('19)
Jenna Green ('17)

Anil Methipara (Co-Chair, '16)
Emily McAdam (Staff, '08)
David Coleman ('17)
Vicky Wu ('17)