



Approach to Sustainable Investing

In 2014, Harvard University was the first U.S. endowment to become a signatory to the United Nations-supported Principles for Responsible Investment (PRI). Accordingly, Harvard Management Company, Inc. (HMC) is committed to considering environmental, social, and governance (ESG) factors in the course of underwriting, analyzing, and monitoring investments.

While ESG integration is an organization-wide undertaking, HMC's investment professionals ensure that ESG factors are considered and integrated within the investment decision-making process. Other components of HMC's sustainable investing practices, including reporting and collaborative engagements, are led by HMC's sustainable investing team. The sustainable investing team also works closely with the University's Corporation Committee on Shareholder Responsibility (CCSR) and Advisory Committee on Shareholder Responsibility (ACSR) on issues pertaining to proxy voting.

ESG Integration

HMC commits to consider relevant ESG factors—both risk factors and opportunity sets—in the course of its underwriting, analysis, and monitoring of investments. Relevant ESG factors are those that HMC determines, in its sole discretion, have, or have the potential to have, a material impact on the financial performance of an investment. This approach applies to all asset classes, sectors, and markets in which HMC invests.

The degree to which ESG factors are relevant and material to an investment depends on many factors, such as the specific company or asset, the industry in which it operates, and the type of investment strategy. ESG factors may have a direct financial impact on an investment, such as additional environmental regulation increasing operating costs, or health and safety violations leading to fines or legal liability. ESG factors may also have an indirect financial impact on an investment, such as harassment or discrimination claims in the workplace impairing a company's ability to attract talented employees, or safety-based recalls impairing customer loyalty, as well as a company's reputation and brand.

While it is important to understand how HMC considers ESG integration, it is equally important to understand the elements of a broader sustainable investment philosophy that HMC's program does not incorporate:

- HMC does not have a mandate for impact investment which actively seeks a social or environmental return, separate from, and in addition to, a financial return.
- HMC does not segregate a portion of the endowment for thematic investing.
- Any negative screening (divestment) in the portfolio is determined by Harvard University, and only on very rare occasions (See Ethical Considerations and Investment Exclusions, [below](#)).

External Managers

HMC is fortunate to collaborate with outstanding external managers, many of whom it has partnered with for years. When HMC engages with external managers, they are expected to consider relevant ESG factors that may have a material impact on the financial performance of their portfolios and to have a willingness to engage with HMC in a dialogue on sustainable investing.

Sustainable Investing Policy

The approach to engagement with external managers is not proscriptive and HMC does not seek to limit its managers' investment universe. The goal is to understand how managers integrate material ESG factors into their investment strategies, how they communicate ESG-related issues with limited partners, and the weight they give those considerations in light of HMC's stated ESG priorities and objectives. HMC utilizes the PRI's Limited Partners' Responsible Investment Due Diligence Questionnaire as a framework for ESG due diligence.

Climate-related Risk

With regard to climate-related risk, HMC works with external managers to:

- Actively engage with their portfolio companies on ESG issues to understand and influence that company's exposure to, and planned mitigation of, climate-related risks;
- Encourage climate-related financial disclosures from their portfolio companies consistent with the recommendations of the Task Force on Climate-Related Financial Disclosures ([TCFD](#)); and
- Encourage portfolio companies to develop a credible plan to reduce their greenhouse gas (GHG) emissions, including measurable, science-based targets, consistent with achieving the goals of the [Paris Agreement](#).

Recognizing the existential threat of climate-related risk, as well as the urgent need to take immediate action, the President & Fellows of Harvard College instructed HMC to set the Harvard endowment on a path to achieve [net-zero greenhouse gas emissions](#) by 2050, consistent with the goals of the Paris Agreement.

Stewardship

Collaborative Engagements

As a long-term investor, HMC encourages its external managers and portfolio companies to be a positive force in meeting society's long-term needs while addressing pressing imperatives. Thoughtful engagement is an effective means of exchanging information, improving understanding of a company's business and practices, and encouraging companies' to improve their ESG performance, thereby enhancing the value of the investment.

With its increased utilization of external managers, HMC believes that the most significant way to engage with publicly listed companies is through collaborative engagements such as those organized by the PRI, the Ceres Investor Network on Climate Risk and Sustainability (Ceres Investor Network), and Climate Action 100+. The primary objective of engagement activities is the protection and enhancement of the value of HMC's investments. HMC may engage with companies on a host of issues, but expects the focus of most of its engagement activity to be on firms' ESG disclosure and performance.

Issues identified as appropriate for ESG engagements include:

- **Sustainability reporting** – analyzing and communicating ESG practices in a systemic fashion
- **Environmental factors** – including climate-related risk, water and natural resource use
- **Social factors** – including diversity and inclusion, human rights, and supply chain management
- **Governance factors** – accountability and transparency in management practices

Before joining a collaborative engagement, HMC considers the objectives for the engagement. The objectives vary based on the nature and purpose of the engagement, but may include improved disclosure, adoption of industry best practices in a certain area, or a particular outcome on a specific

Sustainable Investing Policy

matter. The HMC sustainable investing team is responsible for tracking progress of the engagement and providing quarterly updates on HMC's engagements to its Board of Directors.

Aligned Organizations

Collaborating with like-minded investors is important to achieving HMC's sustainable investing goals. HMC has joined and publicly supports initiatives that align with, and help guide, its approach to sustainable investing. Additionally, HMC actively work with peers, external managers, and other institutional investors to advance shared goals and develop sustainable investing best practices.

Aligned organizations include:

- CDP
- Ceres Investor Network
- Climate Action 100+
- Environmental Defense Fund
- PRI
- Sustainable Accounting Standards Board (SASB) Alliance
- Task Force on Climate-related Financial Disclosures (TCFD)
- United Nations Intergovernmental Panel on Climate Change (IPCC)

Proxy Voting

A pair of committees at Harvard, together, play a central role in the University's consideration of matters of shareholder responsibility. These are the Advisory Committee on Shareholder Responsibility (ACSR)—an advisory body comprised of faculty, students, and alumni—and the Corporation Committee on Shareholder Responsibility (CCSR)—comprised of members of the Harvard Corporation. Since 1972, these two committees have worked to fulfill the University's responsibilities as an investor to vote Harvard's proxies related to social and environmental issues at companies in which the University directly holds shares. The ACSR presents recommendations to the CCSR, which then votes on the proxies as part of the University's fiduciary responsibility. Each year, the University [publishes a report](#) describing and explaining its votes on these proxies.

Most of Harvard's holdings in the U.S. public equity markets are now held through pooled investments and commingled funds managed by outside management firms, rather than through individual stocks directly owned in the University's name. As such, Harvard does not itself vote on shareholder resolutions related to those holdings. The University continues to exercise its voice on shareholder resolutions facing companies in which Harvard maintains a significant, if not direct, exposure, in part through guidelines on shareholder resolutions developed by the ACSR and CCSR and based on the University's proxy voting practices over the past several decades.

HMC shares these proxy voting guidelines with its external managers as a means to reflect the views of a large institutional investor. The guidelines are not intended to be prescriptive, and HMC recognizes that external managers may not necessarily share Harvard's view on every issue. Nonetheless, HMC expects its external managers to have a robust approach to stewardship and to make informed voting decisions. As one of a number of relevant considerations in assessing overall performance, HMC will consider an external manager's stewardship practices in light of these guidelines.

Sustainable Investing Policy

To the extent HMC holds individual securities, it seeks to discharge its fiduciary duty and act as a responsible shareholder by voting proxies as instructed by Harvard or otherwise in Harvard's best interest as a shareholder, considering all relevant factors. HMC directs all environmental and social proposals to the ACSR for consideration and votes as instructed by the CCSR.

When considering a vote, HMC evaluates all factors it deems relevant in the context of the issuer, industry, and country or countries in which its business is conducted, and, when in the best interest of the University, may refrain from voting a given proxy ballot. HMC also regularly reviews, no less than annually, its voting record to ensure that proxies are voted in accordance with this policy, and that procedures, documentation, and reports relating to proxy voting are promptly and properly prepared and disseminated.

Fiduciary Duty

Harvard's endowment is a perpetual source of support for the University's teaching and research. As the University's largest financial asset, endowment returns enable leading financial aid programs, critical discoveries in scientific research, and hundreds of professorships across a wide range of academic fields.

HMC's mission is to help ensure that the University has the financial resources to confidently maintain and expand its leadership in teaching and research. HMC has a long-term investment horizon and strives for successful investment—both now and in the future.

HMC believes that its holistic approach to managing sustainability considerations is consistent with its fiduciary duty to deliver appropriate risk-adjusted investment returns to the University.

Reporting

HMC will provide regular reporting to its Board of Directors, as well as the Harvard Corporation, and release an annual public update to share recent and ongoing sustainability efforts. HMC will also complete the PRI's assessment framework on an annual basis.

Ethical Considerations and Investment Exclusions

Determinations involving ethical considerations relating to the endowment are made by Harvard University. An explanation of Harvard's approach to making such determinations can be found on the University's [Shareholder Responsibility webpage](#).

When, on rare occasions, the University issues investment restrictions to HMC, these restrictions extend to direct holdings, including direct holdings managed by external investment managers trading in the name of President and Fellows of Harvard College through separately managed accounts. These restrictions do not extend to investment advisers of commingled funds where Harvard is not the sole investor.