THE OHIO STATE UNIVERSITY

Summary: Divestment Impact Report

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Finance Committee | November 2018

Background: USG divestment proposal

- Nov. 2017: Undergraduate Student Government adopts Resolution 50-R-24
- Key point: "Divest from Duke Energy, Energy Transfer Partners, and the top 200 fossil fuel companies as reported by the Fossil Free Index."
  - "Carbon Underground 200" is an annual ranking of 200 public companies
  - Rank determined by potential carbon emissions content of reserves
  - List includes 100 coal companies and 100 oil and gas companies
- USG approval triggers process described in university Investments Policy:
  - Senior VP for Business and Finance must produce an impact report
  - The Board of Trustees must vote on divestment proposal

Financial impact review

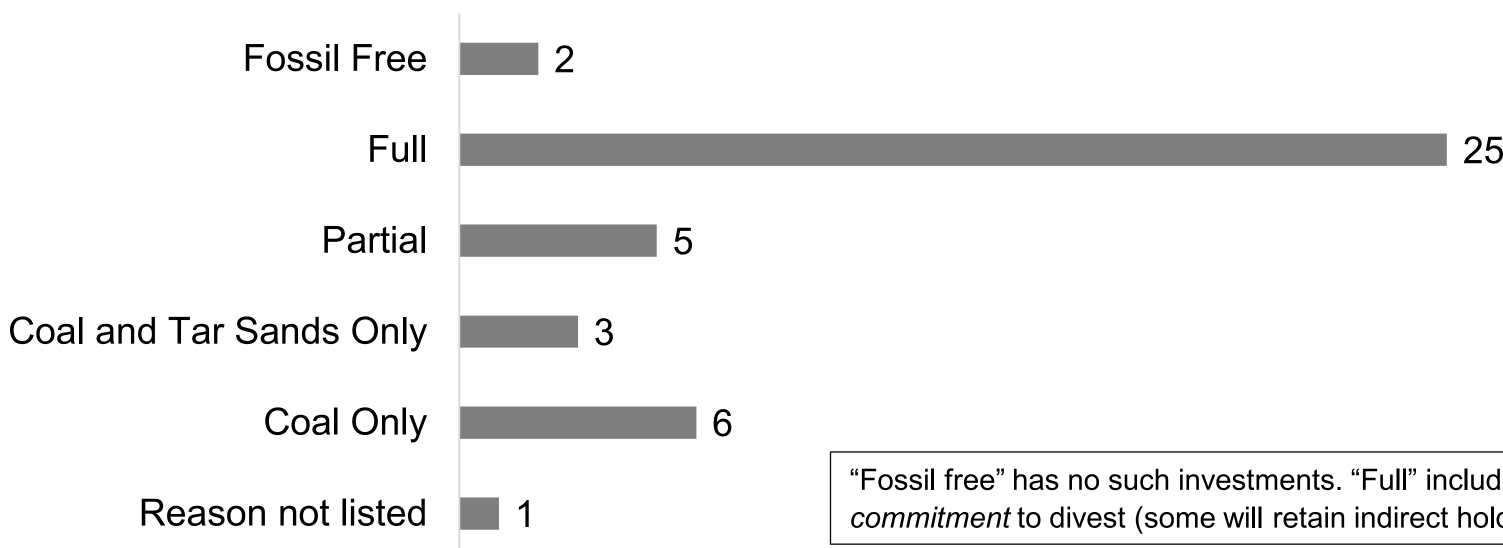
The university evaluated the following in developing an impact report:

- Fossil fuel divestment trends
- Case studies in higher education
- Review of Ohio State investment portfolio
- Discussions with industry experts
- Engagement with student leaders (5 meetings in 2017-18 and fall 2018)

Overview: Fossil fuel divestment

- ➢ The United States has ~7,000 higher education institutions
- ➢ 42 have approved some kind of divestment, according to Fossil Free group
  - Many distinguish between direct vs. indirect investments
  - Actions vary in how they define the type of investments
- ➢ Advocates' list captures only divestment decisions; does not include denials

Fossil fuel divestment in U.S. education



"Fossil free" has no such investments. "Full" includes *commitment* to divest (some will retain indirect holdings)

Source: Fossil Free, July 2018

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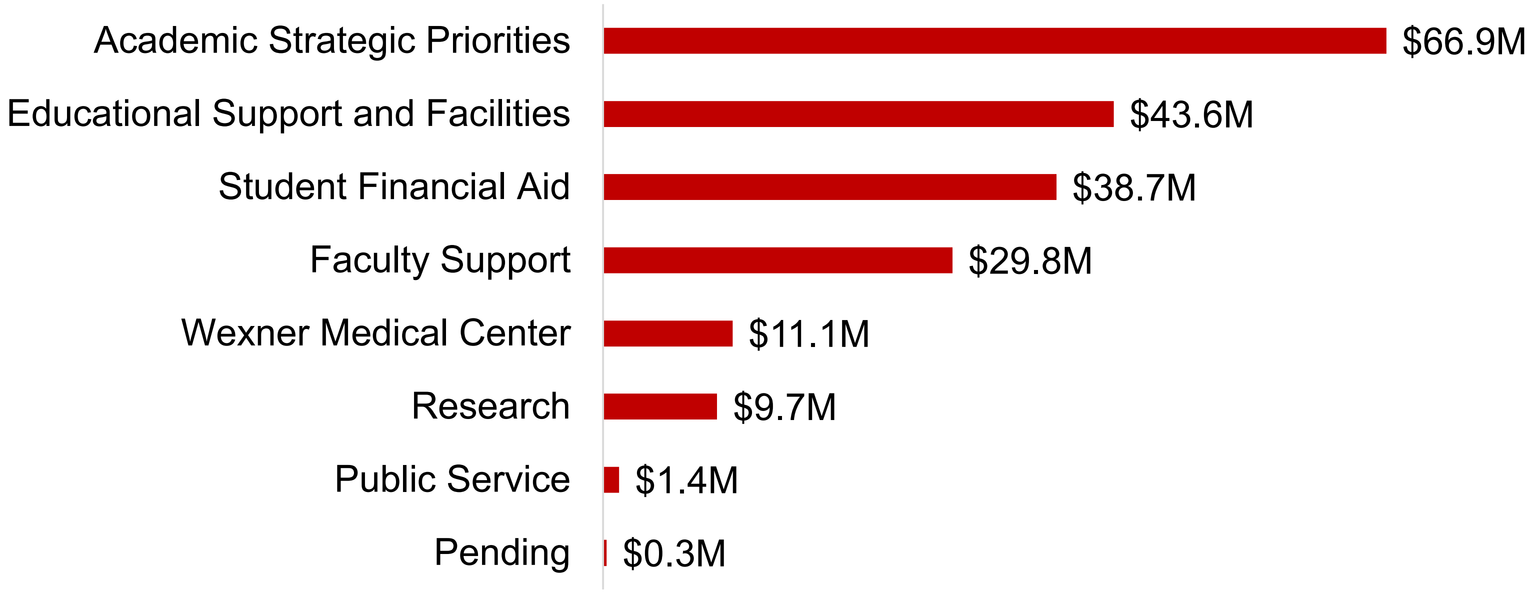
Overview: Long-Term Investment Pool

- Every dollar we invest in the LTIP supports our key mission without expanding our reliance on tuition or tax dollars

- The LTIP contains more than 5,900 endowments funded by private gifts, strategic investments by the university, and long-term savings to protect the financial health of the university and Wexner Medical Center.

LTIP distributions for FY18: $201.5 million



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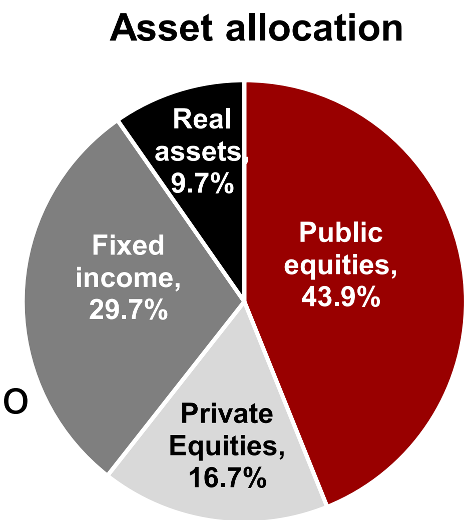
How LTIP is invested



- $2.3 billion invested in public equities (43.9% of LTIP)
  - Ohio State does not pick stocks; outside managers do
- We could not dictate choice of stocks in ~80% of equities
  - $1.06 billion is in co-mingled accounts with multiple investors
  - $792 million is in passive indexes or ETFs
- The other 20 percent ($438 million) is managed externally but directly owned by the university in separate accounts

ENERGY INVESTMENTS

- Economic trends, including in energy, are reflected in investment strategy
- Invested $60M in infrastructure fund that includes wind farms, solar projects
- Winding down illiquid investments in oil and gas exploration/production
  - No new investments in more than three years
  - Natural resources is a declining percentage of the portfolio

Key findings of impact review

- USG proposal would require a broad change in strategy beyond fossil fuels
  - Proposal would affect ~80% of public equities in co-mingled/index funds
- Other approaches (fossil free indexes, restrictions on managers) pose risks
  - University would be excluded from some high-performing funds
  - Investment pool would be less diverse/more susceptible to market factors
  - Managers would likely charge higher fees to meet our preferences
- Underperformance would mean less funding available for academic priorities
  - Over 10 years, underperforming budget by 1% would have big impact
    - Market value would be $690M less
    - Annual funding for university priorities would be $30.5M less
- Divestment would not advance the sustainability of the Ohio State campuses

Recommendation

- Maintain current investment strategy
  - Make adjustments based on economic considerations
  - Pursue financially viable opportunities for sustainable investments
- Continue to focus on other avenues to enhance sustainability
  - Energy efficiency projects (example: lighting and building retrofits)
  - Renewable energy sources (example: 15-year wind purchase agreement)
  - Research (example: Energy Advancement and Innovation Center)
  - Smart mobility (example: electric vehicles)
  - Recycling (example: Zero Waste)
  - Other opportunities for innovation