

Date: June 23, 2022

To: Northwestern University Community

From: Northwestern University Board of Trustees

Subject: Fossil Fuels, Greenhouse Gas Emissions, and Energy Transition Investment Policy Guidelines

To the Northwestern Community:

Over the past several years, the Northwestern Community along with our broader society have grappled with the growing threat of climate change due to increasing carbon and other greenhouse gas emissions.

The University contributes to efforts to address the threat of climate change in many ways including important research initiatives and an ongoing commitment to sustainable operations. The research and innovation of our faculty and students is likely the most effective means by which the University will promote change. Maintaining funding for these important initiatives is a critical goal of the investment program.

In addition to these ongoing efforts, the Board of Trustees has also considered a number of proposals to ensure that the investments made on behalf of the University's endowment are consistent with growing concerns about the threat of grave social injury arising from climate change.

The complexity of reducing our society's reliance on fossil fuels while still meeting our energy and transportation needs has become more apparent in recent months as supply disruptions result in sharply higher prices. The University recognizes an urgent societal need to reduce reliance on traditional fuels while remaining thoughtful about the potential for unintended consequences during a necessary period of transition.

In considering a range of potential investment policies that could address climate change, the Board of Trustees has emphasized policies that are most likely to accelerate a transition to cleaner sources of energy and reduce carbon emissions. The discussion has considered the limited benefits of addressing only the supply of energy (divestment from producers) without a corresponding consideration of how to reduce demand for or usage of fossil fuels in electricity, transportation and energy supply. In addition, we believe active investment in new energy technologies and infrastructure to promote a greater supply of alternatives to fossil fuels may be the most promising avenue to promote real change.

The University believes it has an obligation to carefully consider the potential unintended consequences that could result from indiscriminate policies that target supply without addressing demand. These include but are not limited to concerns about sharply higher energy and electricity costs which disproportionately impact lower income people and exacerbate inequality. In addition, targeted investment in lower emissions fuels can lower the relative costs of these sources and promote more rapid declines in the usage of higher emission fuel sources such as thermal coal and heavy oil.

Finally, we believe that investors with strong conviction around the need to address climate change can engage with energy producers to accelerate the transition to renewable and other low emission fuel sources and to ensure the highest possible standards in production.

The Trustees also believe engagement around energy usage and a commitment to a reduced carbon footprint is a standard that can be applied to all of our holdings across all industries, recognizing that our society cannot address climate risk adequately without reducing the demand for traditional energy.

As a result, the Board of Trustees has developed the following set of Investment Guidelines that combine divestment in cases where that is deemed to be the most effective strategy with active engagement elsewhere. Above all we commit to measuring the endowment's overall carbon footprint and working with peers and advocacy groups to measure and reduce the emissions of all companies in which the University invests, including in industries outside of energy production such as agriculture, transportation and construction.

Above all, as stated in the 2019 Statement on Investment Responsibility, the funds held in the endowment are first and foremost dedicated to serving the financial needs of the community. Proceeds from the endowment represent approximately 25% of the University's revenues. Any constraints on investment activities have the potential to reduce long term returns. As such, the Board remains committed to the principle of enacting only those policies which it believes are both urgently important and highly likely to result in real as opposed to symbolic change.

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In 2019, the Trustees of Northwestern University issued a statement affirming the University's commitment to both the prudent management of its endowment and the upholding of core University values in its investment practices.

The Trustees noted that, in exceptional cases, they may determine that an activity is sufficiently harmful to society to warrant the imposition of specific guidelines on the Investment Office.

The University acknowledges that climate change resulting from greenhouse gas emissions poses a clear and serious threat to human well-being. Northwestern University will continue to play an important role in addressing this challenge through our research and our own sustainability efforts. Providing financial support for our faculty and students working on solutions to these threats is likely the most important contribution we, as a University, can make.

In addition to these measures and with input from the University's ACIR and other constituents, the Trustees now endorse a set of actions proposed by the Investment Committee to further align our investment policy with our commitment to promoting more urgent action on climate change while remaining sensitive to our society's need for safe and affordable energy.

Consistent with our Statement on Investment Responsibility, the Trustees have sought a set of responses believed most likely to be both effective and meaningful in reducing greenhouse gas emissions while also considering the potential for unintended consequences. These recommendations center on the view that both the usage and the production of fossil fuels contribute to climate change and that meeting society's current energy needs may require some use of fossil fuels during a transition period. Indiscriminate divestment from all energy production could result in unintended consequences such as higher income inequality, a shift back to higher emission production sources such as coal or a disengagement by responsible investors from the field of energy production overall.

As such, the University is adopting both engagement and capital allocation strategies to promote change.

Specifically, the Trustees have directed the Investment Office to take the following steps towards ensuring that our investment policies align with our values.

- Limit future direct investments in energy to companies that produce alternative or responsible transition fuels with lower levels of GHG emissions relative to energy supplied as compared to alternatives.
- Divest as possible from direct holdings of public or private companies identified as pursuing poor practices with respect to GHG emissions, energy production or climate change information and research.
- Seek out and support investments in technologies that accelerate the transition to a carbon-free energy future, promote energy efficiency and reduce atmospheric carbon while meeting the University's general standards for investment excellence.

- Adopt a system of compiling the endowment's overall carbon footprint, actively engage with company management teams and investment managers to promote the reduction of this aggregate carbon footprint and report annually on progress in achieving a net zero emissions status. As a first step, the Investment Office will measure and report on the carbon footprint of the top public holdings of the endowment and will seek to expand this monitoring as possible over time.

The Investment Office will provide a report on all energy related investments and the carbon footprint of the endowment to the President and the Investment Committee of the Board of Trustees annually.