

September 22, 2016

To the Members of Fossil Free Penn:

I write in response to your proposal submitted in November 2015 to the University Council Steering Committee that the University end new investments in the fossil fuel industry, remove holdings in the top 200 fossil fuel companies globally within five years, and reinvest a portion of extricated funds into clean energy assets.

On behalf of Penn's Trustees, I would like to express our gratitude for the commitment of time, energy, and the deep concern demonstrated by Fossil Free Penn in bringing forward this proposal. The proposal to divest was substantive and well presented.

At the recommendation of University Council's Steering Committee and in keeping with the new guidelines established by the Trustees in 2013 for handling divestment proposals, and on behalf of the Trustees, I convened an Ad Hoc Advisory Committee on Divestment in March 2016 to conduct a thorough review of the Fossil Free proposal and to make its recommendations to the Trustees. In its review, the Committee was charged with determining whether the proposal met the criteria for divestment established in the Trustee guidelines, as follows:

- There exists a moral evil implicating a core University value creating a substantial social injury;
- Divestment is reserved for a specific company or companies, rather than a broad proposal directed at an industry or activity more generally;
- The company or companies identified for divestment must have a clear and undeniable nexus to the moral evil; and
- The proposal must have the support of a broad and sustained consensus of the University community reflected over a sustained period of time.

The Committee, whose membership included faculty, students, staff, and alumni, has completed its deliberations and has forwarded to the Trustees its findings and report. The Committee unanimously found that the Fossil Free Penn proposal does not meet the established criteria for divestment. As a result, the Committee did not recommend divestment.

In its unanimous decision, the Ad Hoc Advisory Committee concurred in what the Trustees consider to be the linchpin of any divestment decision at Penn: the interpretation of moral evil as an activity on par with apartheid or genocide. While the Trustees recognize that the "bar" of moral evil presents a rigorously high barrier of consideration, we are resolute in our belief that such a high barrier must be maintained so that investment decisions and the endowment are not used for the purpose of making public policy statements.

University Engagement and Action

It is important to note, however, that, in lieu of divestment, the Committee's report offered several specific and thoughtful recommendations for alternative means by which the University can address the social responsibility concerns at issue. These include:

- Enhancing and leveraging existing efforts in campus sustainability, academics, and research regarding climate change and energy;
- As a matter of prudent business practices, considering whether Penn's external investment managers and any companies Penn invests in directly are taking into account the effects of climate change and possible regulatory responses; and
- Enhanced attention to energy and sustainability efforts through proxy voting.

The Committee also acknowledged the University's current significant engagement relating to issues of sustainability, energy, and the environment, including internal operational policies as well as multifaceted curricular offerings, research, teaching, and policy development efforts.

Environmental sustainability and reducing our carbon footprint has been one of Penn's highest priorities for many years. At my request, President Gutmann, Provost Vincent Price, and Executive Vice President Craig Carnaroli have closely reviewed the Committee's recommendations in view of existing and planned Penn initiatives. They have articulated for me and the full Board of Trustees a thorough and extensive set of programs that actively express the University's commitment to worldwide impact on climate change by advancing innovation and interdisciplinary research, building and honing faculty strengths, and developing new educational programs.

Additionally, the University supports the Committee's recommendation that the Office of Investments, as part of its investment decision-making and monitoring, consider the long-term investment risks associated with climate change and potential regulatory responses. The Office will similarly include such considerations when evaluating the potential of investment opportunities in areas of alternative energy and technology. Finally, current guidelines covering shareholder proxy votes in the energy space will be reviewed and expanded as necessary.

The Committee recommendations and the Administration's full response are attached as Appendix A.

Trustee Response

The Executive Committee of the Trustees, on behalf of the full Board, have reviewed the report of the Ad Hoc Advisory Committee and its recommendations, as well as the University's recommendations for future action.

The Executive Committee of the Trustees, at its Stated Meeting on September 22, 2016, unanimously approved a Resolution accepting the Ad Hoc Advisory Committee's findings and recommendation to not divest from holdings related to fossil fuels. Further, the Trustees endorsed the Ad Hoc Advisory Committee's recommendations for alternative actions for consideration by the University in addressing climate change and global energy challenges.

The Trustees also expressed their gratitude both to Fossil Free Penn for their proposal and to the members of the Ad Hoc Advisory Committee and to its Committee Chair, David Roberts, for their thorough and thoughtful exploration of all facets of the Fossil Free Penn proposal.

Conclusion

Once again, we express our gratitude to the members of Fossil Free Penn for their commitment to bring forward for greater discussion the critical questions regarding sustainability and responsible global citizenship, for us as individuals and as a University community. Penn is fully committed to its many efforts to provide a sustainable environment, promote responsible policy, and to the research, teaching, and training of future leaders to maximize impact as we confront these issues at home and abroad. We look forward to continuing this conversation and drawing strength from all University constituencies in these critical efforts.

Sincerely,



David L. Cohen
Chair, Board of Trustees of the University of Pennsylvania

Access these links to view: the [Fossil Free Penn Divestment Proposal](#), Penn's [Guidelines and Procedures for Consideration of Proposals for Divestment](#), the [Charge to the Ad Hoc Advisory Committee on Divestment](#), and the [Report of the Ad Hoc Advisory Committee on Divestment](#).

APPENDIX A

The recommendations of the Ad Hoc Advisory Committee on Divestment and the University's response are as follows:

- 1) That the Board of Trustees pursue a means to systematically leverage and coordinate existing and evolving efforts in campus sustainability, academics and research regarding climate change and energy. We believe these efforts are mutually reinforcing in theory and that deploying additional resources to make it so in practice by means best chosen by the Board and the Administration, would have many salutary effects.
- 2) That the University continue to enhance its programs, research, and teaching related to climate change, energy, and the environment as well as the institution's direct environmental impact.

The University accepts and is fully prepared to embrace the Committee's recommendations. The Office of the Provost will work with the Schools – including in particular Arts and Sciences, Design, Engineering and Applied Science, and Wharton – to advance strategic academic planning around sustainability and energy research. Of particular note, we will work to launch a major, University-wide initiative in energy research that would build effectively off Penn's institutional commitments in recent years. The objective will be to develop a comprehensive strategy for energy research and teaching that is aligned with the University's strengths, so that Penn plays an integral role in training the next generation of scientists, teachers, and leaders who will tackle the world's energy challenges.

Advancing innovative, interdisciplinary research: A centerpiece of our efforts will be establishment of a new Vagelos Institute of Energy Science and Technology, housed in the School of Arts and Sciences, to act as a campus-wide catalyst for efforts that link innovation to impact, providing seed grants to support multidisciplinary research projects and hosting distinguished visiting faculty and post-doctoral researchers. The Institute will provide the highly-skilled technical staff needed to support faculty research in physics, engineering, chemistry, biology, and earth and environmental science pertaining to energy science and ecological impacts. It will also enable a continual dialogue between natural science and social science researchers exploring the drivers for decisions on energy use and environmental policy, in close concert and coordination with other centers such as the Kleinman Center for Energy Policy in the School of Design, the Penn Institute for Urban Research (PIUR), and the Wharton School's Initiative for Global Environmental Leadership (IGEL).

Building and honing faculty strengths: Supporting these integrative goals, Penn will make significant investments in faculty hires to better equip us to lead in energy-related and environmental research. The School of Engineering and Applied Science is prepared to advance "Water, Energy and Food" as among its focal themes for interdisciplinary hiring, and will collaborate closely with SAS in building our capabilities in energy capture, storage and conversion. We will furthermore work to

create linkages among natural science departments around the areas of evolution, ecology, and physiology; focus hiring in the social sciences around historical and contemporary policy and the ethics of energy production and environmental issues; and build strengths in the humanities around a nascent core in eco-criticism and the Penn Program in Environmental Humanities in SAS. We will ensure that the Perry World House collaborates with the schools and centers in identification and recruitment of scholars who bring expertise in sustainable development to global issues.

Developing new educational programs: The University is also firmly committed to establishing curricula, coordinated across disciplines, to educate the next generation of responsible citizens and leaders. As befits an institution dedicated to the close integration of leading-edge research and teaching, Penn's new research initiatives will be designed to benefit our students – undergraduates and graduate students alike – through opportunities for focused, project-based learning and through new courses that cross disciplinary boundaries. We expect that the Vagelos Institute will have a key role to play as a central point of contact to ensure that students maximally benefit from the research opportunities and vast array of curricular options offered on these topics. The latter include a rapidly expanding number of academic programs, including the dual-degree Vagelos Integrated Program in Energy Research (SAS and SEAS); a University-wide Minor in Sustainability and Environmental Management (managed by Wharton's IGEL); a SEAS Minor in Energy and Sustainability; and an array of master's degree programs, including the Masters of Environmental Building Design in the School of Design, and the SAS Masters of Environmental Studies and Masters of Organizational Dynamics with a concentration in Sustainable Development.

- 3) That Penn's Endowment, in its investing decisions, as a matter of prudent business practices, consider whether its external investment managers and companies it invests in directly, are taking into account the effects of climate change and possible regulatory responses.

Consideration of such factors is an appropriate and important aspect of the evaluation of the potential risks and returns of investments. Through direct discussions of these issues with Penn's existing and potential investment partners, the Office of Investments can both communicate the University's expectations and better assess and manage risks to Penn's investments. Consideration of these factors can also inform the evaluation of investment opportunities created by innovative and economic solutions to the causes and symptoms of climate change. We believe that the thoughtful incorporation of climate change into investment decision making is consistent with the University's goal of maximizing the long-term risk adjusted returns of the endowment.

- 4) That the Penn Social Responsibility Advisory Committee (SRAC) consider proxy voting issues relating to greenhouse gas emissions and climate change. We suggest that SRAC consider adopting something similar to what Yale has recently adopted: "Yale will generally support reasonable and well-constructed shareholder resolutions seeking company disclosure of greenhouse gas emissions, analyses of the impact of climate change on a company's business activities, strategies designed to reduce the

company's long-term impact on the global climate, and company support of sound and effective governmental policies on climate change.”

The University has and will continue to endorse using the proxy voting process to express the University community's positions on issues relating to corporate social responsibility. The University will review this recommendation with both the Trustee Proxy Voting Subcommittee of the Executive Committee as well as the Social Responsibility Advisory Committee (SRAC). In the past, SRAC has developed a framework to categorize and evaluate proxy votes on corporate social responsibility issues. Areas of focus have included both resource extraction and sustainability reporting, among others. Guidelines established for each category serve as the basis for SRAC's recommendations to the Trustees Subcommittee on Proxy Voting. While the Yale guidelines referenced in the Ad Hoc Committee's report can serve as a template for consideration, we will encourage SRAC to review its current guidelines and determine whether any amplification or modification is warranted.