



May 11, 2023

Dr. Audrey Korsgaard, Chair
University of South Carolina Faculty Senate
Darla Moore School of Business
Columbia, South Carolina

Dr. Korsgaard,

We are writing to provide the Faculty Senate of the University of South Carolina with our response to the Recommendation passed by the Faculty Senate in March 2021 relating to the USC Educational Foundation's investments in fossil fuels. The Recommendation was to divest the University of South Carolina (University) from the fossil fuel industry. Since the investments are actually held by the USC Educational Foundation (Foundation) as stated in the Recommendation, then President Bob Caslen forwarded the Recommendation to the Foundation to evaluate and respond. The Foundation, a 501(c)3 non-profit corporation, was formed several decades ago to be the recipient and manager of donor gifts on behalf of the University. Therefore, the University itself holds a limited number of endowed funds.

As you are aware, we have provided periodic updates through memorandums to the Faculty Senate in June 2022 and January 2023 which detailed the work done by the Foundation as it relates to the Recommendation. Also, as you are aware, the Student Senate passed a similar recommendation and we have included them in our evaluation process and provided updates to them as well.

The USC Educational Foundation Board appreciates the hard work by the outstanding faculty at the University. The work you do every day to educate and inspire our students will produce citizens and leaders that will help transform our future. We also appreciate the points outlined in your Recommendation and we have taken intentional steps to understand and address your concerns. We considered your request to be very important and thus the Board chose to appoint an Ad Hoc Committee (Committee) to evaluate and respond to your Recommendation and to the Student Senate Recommendation. The following summary details our due diligence procedures, considerations after due diligence and ultimately, our response to the Recommendation.

Due Diligence Procedures

May 12, 2021

At the Foundation's quarterly Board meeting, the letter from President Bob Caslen, the Faculty Senate Recommendation, and the Student Senate Recommendation were introduced to the Board for its consideration. The Board took the following actions:

- Appointed an Ad Hoc Committee of the Board (Committee) charged to evaluate the Recommendation and take the necessary steps to receive information from interested parties.
 - Boyd Jones, past chair of the Board, was asked to Chair the Committee. Other Committee members appointed were: James Bennett, Tom Deas, Calvin Elam, John Jonson, Kenda Laughey, Buddy McEntire, and Allen Wright.
- The Board directed the Foundation CEO to notify the Faculty Senate and Student Senate of the formation of the Committee and the plans and directives for the Committee.

September 14, 2021

- The Committee held its first meeting which was primarily an Organizational Meeting to discuss the Purpose and Goals of the Committee. At that meeting, the Committee:
 - Reviewed the two Recommendations and President Caslen's letter
 - Received information from Fund Evaluation Group (FEG), our independent investment consultant, which included:
 - The Foundation's exposure to fossil fuels across all funds as of June 30, 2021, and our exposure was estimated to be 4.8%; our direct exposure to the energy sector was estimated to be 4.1%.
 - Insight on other Higher Education Foundations that have addressed this issue
 - Discussed the small percentage of the entire portfolio related to these investments.
 - Asked Stephen Hodson, consultant from FEG, to discuss other points related to the potential consequences of divesting from current funds.
- The Committee decided next steps to be:
 - Hear from the University President and Provost at an October meeting
 - Hear from Student Senators at a November meeting
 - Hear from the Faculty Senate at a January or February 2022 meeting
 - During this period, it was decided to continue to gather information from other schools on this topic
 - Ultimately, it was decided that the Committee would evaluate the information received throughout the process and make a recommendation to the Investment Committee and Foundation Board after carefully hearing from University administrators, faculty, students, donors, and other constituents.

October 12, 2021

- The Committee devoted this meeting to hearing from the Administration of the University. Dr. Pastides, interim President of the University, and Dr. Stephen Cutler, interim Provost of the University, were invited to join the meeting.
- FEG, our investment consultants, reviewed the Foundation's direct and indirect holdings in fossil fuels as of June 30, 2021.
- The interim University President and interim University Provost were then asked to express their views from a University perspective on the Recommendations and requests made by the Faculty Senate and Student Senate as it relates to divestment.
- Dr. Pastides and Dr. Cutler made comments on the Recommendation and issues being discussed.
- The Committee then asked the interim President and Provost further questions regarding the topic.

- The Committee reminded them of next steps which included meeting with students and faculty representatives.

November 30, 2021

- The Committee held its third meeting in November which was devoted to hearing from Students. Four students joined:
 - Ms. Morgiana McDevitt – Student Senate (Speaker of the Senate)
 - Mr. Louis Rubino – VP of Sierra Club Student Senate Coalition
 - Mr. Dalton Fulcher – President of the Sierra Club Coalition
 - Ms. Claire Windsor – Former Chair of the USC Student Senate Sustainability Committee
- In addition, Dr. Matt Souther and Interim Provost Cutler joined as well.
 - The students presented a very comprehensive presentation on divestment and were responsive to the questions posed by the Committee. It was also good to get clarity on what they really hope to get out of this, which they expressed is to focus on our 3 alternative investments that include some direct investment in the fossil fuel industry.
 - We reminded them that we have taken their requests seriously and hopefully have demonstrated a commitment to evaluating their concerns through the actions we have taken and continue to take through the formation of this special committee to evaluate the Recommendations and meet with interested parties.
 - Dr. Souther and Dr. Cutler also participated in the discussion and had some healthy debate with the students.
 - We promised to continue to provide them with minutes and updates on our progress.

January 28, 2022

- The Committee held its fourth meeting in January which was devoted to hearing from the Faculty. Four faculty joined:
 - Dr. Mark Cooper – Past Chair, USC Faculty Senate
 - Dr. Audrey Korsgaard – Chair, USC Faculty Senate
 - Dr. Caroline Nagel – Chair, USC Ad Hoc Comm on Environmental Sustainability
 - Dr. Matt Souther – Member, USC Ad Hoc Comm on Environmental Sustainability
- Dr. Nagel was the primary presenter from the Faculty and helped draft the original Recommendation
- Dr. Cooper was Chair of the Senate when the Recommendation was drafted and supported the Sustainability Committee
- Dr. Korsgaard stated that she is the current Faculty Senate Chair and also stated that she had some conflicts due to her role in the business school
- Dr. Matt Souther, Professor of Finance in the Moore School and member of the Sustainability Committee presented on reasons *not* to divest from investments related to the energy sector and fossil fuel industry
- After some brief discussion with the faculty, it was agreed that we would give the University Sustainability Committee the opportunity to present their findings once their report was completed

March 21, 2022

- The Committee held its fifth meeting in March which was devoted to hearing from students in the business school that believe we should *not* divest of investments involving fossil fuels.
- Dr. Matt Souther, Professor of Finance, worked with a group of students that made the case to the Foundation to not divest of investments related to the energy sector and fossil fuels.
- Students who participated in the presentation were:
 - Christopher Campbell
 - Michael Dommel
 - Jason Goodman
 - Haseeba Karim
 - Nate Kuper
 - Jack Payne
 - Cordell Wanless
- We promised to continue to provide them with minutes and updates on our progress.

October 5, 2022

- The Committee held its sixth meeting in October which was devoted to hearing a report from the University Ad Hoc Committee on Environmental Sustainability.
- Dr. Caroline Nagel, Chair of the USC Ad Hoc Committee on Environmental Sustainability, provided the Committee with copies of their final report. She then presented the Committee with a summary of key points derived by the Sustainability Committee. There was a discussion regarding several points in the report.

November 21, 2022

- The Committee held its seventh meeting in November which was devoted to hearing from the University's newly appointed administration and included Dr. Michael Amiridis, University President, and Dr. Donna Arnett, University Provost.
- Shortly after they joined the University in late summer, Dr. Amiridis and Dr. Donna Arnett were both updated by the Foundation President on the Faculty Senate and Student Senate Recommendation. Both President Amiridis and Provost Arnett acknowledged the importance of the issue of sustainability that was being addressed by the University Sustainability Committee. The President and Provost also discussed additional points in the Recommendations. There was discussion regarding comments made by the President and Provost.
- The Committee concluded that the extensive due diligence procedures conducted over the past eighteen months on this issue had included most constituents and decided that the next meeting would be held to consider a response to the Recommendation.

February 23, 2023

- The Committee met on February 23, 2023 to review and discuss a draft of the Response to the Faculty and Student Senate Recommendation. The draft was prepared by Foundation management and distributed to Committee members prior to the meeting. The committee discussed various statements in the Response and recommended minor edits to the document. Management was asked to update the Response and distribute to the Committee for a final vote at a future meeting.

Final Meeting

- The final meeting on April 11, 2023 was devoted solely to considering the final response to the Recommendation. The following Considerations and Response were unanimously approved by the Committee and recommended to the Educational Foundation Board of Directors at a special called meeting.

Consideration by the Ad Hoc Committee

We hope that we have demonstrated to both the Faculty Senate and Student Senate that we gave serious consideration to the concerns expressed by these bodies. We devoted a significant amount of time to hearing from interested parties and constituents of the University over the past eighteen months. As we contemplated our final response, we considered the following facts and circumstances as a result of our due diligence:

- **Fiduciary Responsibility.** The Foundation is an independent, non-profit foundation formed by the University many years ago to receive, oversee, invest, and manage donor gifts in order to provide the greatest return to fund scholarships, fellowships, and other support as directed by donors. This responsibility extends beyond the current terms of our board members and is a responsibility that is intergenerational and perpetual in nature. The board takes this fiduciary responsibility very seriously and concluded that its accountability is first and foremost to our donors, alumni, and other supporters. In addition, our board is bound by the Uniform Principles of Management of Investment Funds Act (UPMIFA), Code of Laws section 34-6, 2008. UPMIFA requires that assets be invested prudently in diversified investments seeking growth and income to be used for the support of the University.
- **Donor Intent.** The vast majority of the investments managed by the Investment Committee and Foundation are a direct result of specific cash and stock gifts given by donors and supporters of the University. The majority of these gifts are for a specific purpose and therefore are restricted in nature. Gifts that are given with the intent of creating an endowed fund for scholarships or fellowships are made with the expectation that the funds will generate sufficient earnings to provide for the annual support and scholarship payout for which it is given. It is our belief that most donors expect the Foundation's first priority will be to generate the maximum earnings on these gifts to not only provide annual support through scholarships, fellowships, and other mechanisms but also add to the principal balance and generate further growth.
- **University Support and Maximizing Returns.** In addition to considering donor intent, we believe that we not only have a fiduciary responsibility to donors, but also to the University to have a strategy of maximizing our investment returns in order to provide scholarships, fellowships and other institutional support for the University. This duty is coupled with the added responsibility to minimize risk of these investments. The Foundation provides a significant amount of funding for scholarships and other support to the University through the management of unrestricted funds and earnings on those funds.
- **Diversification.** As with any investment strategy, diversification is important to the investment portfolio. The Board has sought to diversify our portfolio in a way to maximize returns and minimize risk. The investment mix of our portfolio is a result of that investment strategy over many years. This strategy occasionally results in direct and indirect investments that include investments related to the fossil fuel industry or companies in the energy sector.

- **Investment Policy Statement.** The Foundation has a comprehensive Investment Policy Statement (IPS) that is approved annually by the Investment Committee and Board. The IPS includes several items already addressed but also includes purpose, investment strategy, asset allocation, and desired return and payout, among other things. Maximizing returns while minimizing risk is an underlying theme of our IPS. The IPS was a major consideration throughout our discussions and evaluation of the Recommendation.
- **Total Amount Invested.** The amount of the Foundation’s investments with direct and indirect exposure to fossil fuels totaled approximately 4.8% as of June 30, 2021, the quarter immediately after the Recommendation was passed. The Foundation only has three funds with direct investments in fossil fuel type companies and as of June 30, 2021, the total percentage of these three funds was approximately 0.76%. Other investments included in the percentages above are included in several mutual funds, including passive index funds. We do not have the ability to dictate investment guidelines or restrictions for co-mingled funds, including mutual funds, hedge funds, and co-mingled private funds. These types of assets comprise the largest amount of our investments and any plan to change these investments would likely lead to significant turnover of our current portfolio managers and strategies.
- **Contributions.** As a public, flagship university, gifts and contributions are made from a myriad of individuals, associations, corporations, and other foundations. This mix of gifts includes contributions from constituents in the energy sector and other fossil fuel related companies. In addition to these gifts, we have a number of relationships that provide important partnerships with the University. We concluded it was very important to consider those contributions, relationships, and partnerships in evaluating this issue.
- **Student success, interns and hiring.** As with contributions, we know that a number of the University’s corporate partners include companies in the energy sector and fossil fuel related industry. These corporations provide many benefits to the University and our students, especially in the Darla Moore School of Business. These benefits include contributions to student success at the University through internships, student projects, and ultimately hiring our graduates. It was important to consider this aspect of student success in this process.
- **Relationship with the University.** While we are an independent foundation, we are an affiliate and a component unit of the University. The University is a component unit of the State of South Carolina. Therefore, we considered that important relationship and specifically, statements made by State officials as it relates to the State’s investments in fossil fuel related companies. The State Treasurer has publicly stated his disapproval of divesting from fossil fuel companies. Since the University is a state agency, we believe it is important to be mindful of the State’s position on this issue.
- **Sustainability.** The Committee understands the overall individual and corporate responsibility for environmental sustainability. We appreciate the efforts by the University’s Ad Hoc Committee on Sustainability and applaud the work done by this committee in the report provided to us.

Conclusion

After a significant period of due diligence, the Committee has reviewed your Recommendation and reflected on all of the Considerations noted above. The Committee offers the following response to your Recommendation.

- **Acknowledgement.** The Foundation acknowledges and appreciates the concerns noted in the Recommendation.
- **Future Investments.** The Foundation commits to gaining an understanding of any fund that involves extraction or refinement of fossil fuels before making new investments. The Foundation will consider alternatives to these types of investments if other funds are available or identified that have similar fee structures and that will generate similar returns and minimize risk.
- **Investment Policy Statement & Environmental Sustainability.** The Foundation will consider modifications to our IPS as it relates to environmental sustainability and ensure that any additional language corresponds to our fiduciary responsibility, donor intent, maximization of returns, minimization of risks, and diversification goals.
- **Public Reporting of Investments.** The Foundation currently publishes a comprehensive report with the details of various funds which are invested by the Foundation. The report is published quarterly and is on the Foundation's website. The Foundation will add additional information on a quarterly basis that clearly identifies direct and indirect investments related to fossil fuels and provides an estimated total of the overall investment portfolio's investments in fossil fuel related industries.
- **Shareholder Proposals on Funds.** The Foundation employs fund managers to manage each of the approximately twenty-four funds in which the foundation invests. These fund managers submit and respond to all shareholder proposals on our behalf and often without our knowledge. We will communicate to our fund managers the importance of environmental sustainability and request periodic updates on their actions during shareholder voting.
- **Total Divestment.** After additional discussions with both faculty and student senate leaders during our due diligence process, it was determined that there is no expectation to completely terminate our funds that include investments in index funds and private equity funds. Faculty members and students communicated their mutual understanding that the fossil fuel component of these funds is not material and to unwind investments in these funds would take considerable time and could impact the investment earnings of the endowment. Therefore, the Foundation cannot commit to total divestment of fossil fuels over the next five years. As noted above, the Foundation will carefully consider any new investment made in the future.

We appreciate your interest and concern regarding the Foundation's investments in fossil fuels. We hope that we have demonstrated our commitment to evaluate and respond to your recommendations by performing extensive due diligence on the topic and to analyze and understand the issue. We also hope that our response will be satisfactory to the Faculty Senate and Student Senate. Please do not hesitate to reach out if you have additional questions.

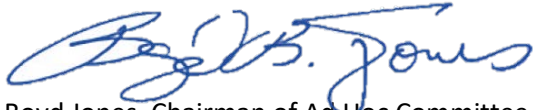
Sincerely,



James Bennett, Chairman
USC Educational Foundation Board of Directors



Tom Deas, Chairman of Investment Committee
USC Educational Foundation Board of Directors



Boyd Jones, Chairman of Ad Hoc Committee
USC Educational Foundation Board of Directors



R. Jason Caskey, CEO
USC Educational Foundation

Cc: Dr. Michael Amiridis, President, University of South Carolina

Cc: Dr. Donna Arnett, Provost, University of South Carolina