

UNIVERSITY OF SOUTHERN CALIFORNIA

Minutes of the Regular Meeting of the Advisory Committee on Investment Responsibility

April 12, 2024

The seventh meeting of the Advisory Committee on Investment Responsibility of the University of Southern California was held at 9:00 a.m. on April 12, 2024 by video conference. The following people participated in the meeting:

Committee Members Participating:

Marlon Boarnet, Faculty

Kathleen Burns Campos, Alumni

Stacy Giwa, Chair

Nichelle Huizar, Staff

Howard Kern, Alumni

Richard Sloan, Faculty

Undergraduate Student Member #1

Undergraduate Student Member #2

Graduate Student Member #1

Graduate Student Member #2

University Administrators Participating:

Amy Diamond, Chief Investment Officer

Hannah Findling, Sustainability Program Administrator

Brian Johnson, Managing Director of the Investment Office

ACIR Intern #1

ACIR Intern #2

Call to Order

Chair Stacy Giwa called the meeting to order at 9:02 a.m. with a reading of the meeting agenda. All members participated by video or teleconference. During the meeting, all members participating could hear and be heard by one another.

New Member Introductions and Departing Member Recognitions

Introductions from the following incoming members: Graduate Student Member #2, Undergraduate Student Member #2, and ACIR Intern #2.

Stacy recognized the three members departing from the committee due to their graduations: Graduate Student Member #1, Undergraduate Student Member #1, and ACIR Intern #1.

Educational Webinar: Investing in Our Values

Stacy Giwa congratulated the Investment Office and the committee on successfully hosting their first educational webinar. [Investing in Our Values](#) was co-hosted by Culture Journey on April 9, 2024. The webinar featured Chief Investment Officer Amy Diamond, Investment Office Managing Director Brian Johnson, Stacy Giwa, and committee Graduate Student Member #1, and was moderated by committee member Professor Richard Sloan. The webinar informed the broader USC community on the endowment's environmental, social, and governance (ESG) initiatives. After a brief presentation, Richard, Amy, and Brian took questions from the audience. A video recording of the webinar will soon be available on the ACIR website. Committee members reported positive feedback, citing the live Q&A session as particularly insightful.

Stacy Giwa surveyed the committee on how to improve promotion for future educational sessions. Committee members suggested partnering with USC's schools, notably Marshall School of Business, Price School of Public Policy, and Lloyd Greif Center for Entrepreneurial Studies for promoting events, acquiring Q&A questions, and sourcing community proposals. Committee members agreed. Stacy Giwa will maintain communication with Culture Journey to coordinate similar engagement activities.

Updates from the Investment Office

Managing Director of the Investment Office Brian Johnson provided an update from the Investment Office. Fossil fuel exposure is \$384M as of March 2024, up from \$346M as of December 2023 and \$313M as of June 2021. The increase was attributable to higher oil and gas prices, which increased the value of the remaining assets. Since July 2021, \$143 million has been distributed from the legacy fossil fuel portfolio, which represents nearly half of the original starting value. About \$3M in new distributions occurred since the last ACIR meeting held in

January. The endowment's liquidation (fossil fuel) portfolio represents 4.4% of total holdings. One of the endowment's partnerships is expected to be sold in Q3 2024 valued at 37% of current fossil fuel holdings.

A committee member asked how the sale's distribution would impact current divestment schedules. Brian Johnson explained that the private holding's investment manager recently went public, indicating an accelerated divestment schedule. Brian Johnson agreed to visually illustrate divestment over time moving forward. A committee member asked if fossil fuel investments are indirectly tracked through fund managers. The Investment Office explained that all holdings are analyzed including externally managed funds. Despite these funds operating independently from the Investment Office, few of the endowment's fund managers invest in oil & gas. A committee member requested the rate of return on fossil fuel holdings before February 2021, or when the Board of Trustees voted to cease origination of fossil fuel investments. Tracking began following the vote; the endowment's divestment portfolio has since realized a 22% annual return.

Letters received from Domestic Workers Justice Initiative

Stacy Giwa noted that several committee members received letters from the Domestic Workers Justice Initiative (DWJI) imploring the ACIR and the Investment Office to evaluate human rights injustices within externally managed holdings. The organization primarily addressed illegal recruitment fees among select employers in Singapore and Hong Kong; investment managers with holdings in these countries could be exposed to social risk. Brian Johnson announced that the Investment Office contacted all associated investment managers (with offices in Singapore or Hong Kong) and discovered none were previously aware of the issue. One Singaporean manager claimed DWJI's sources were outdated and explained Singapore's leadership in workers' rights. The committee commended the Investment Office for their due diligence. The committee determined that the issues surfaced by DWJI were out of the scope of the ACIR and Investment Office's operations.

Open Dialogue

The committee presented and discussed relevant news articles related to sustainable investments. Richard Sloan shared three articles discussing the dilemma of corporate engagement among divestment. Investors in the fossil fuel industry may influence firms via shareholder voting, positively steering corporate policy. Furthermore, competing funds often replace withdrawn capital, implying divestment should coincide with shareholder value maximization. Amy Diamond stated that external managers vote on behalf of the endowment. A committee member asked whether or not current proxy voting incorporates sustainability principles or maximizes shareholder value. Amy Diamond confirmed that despite the Investment Office not influencing its investment managers' shareholder voting, decisions typically prioritize firm performance. A

committee member asserted that leading proxy voting services, such as ISS and Glass Lewis, allow for customization of voting preferences. Amy Diamond detailed how the endowment's decreasing share among large private equity and publicly traded funds increases the Investment Office's ability to actively vote.

ACIR Intern #1 summarized an article about the Environmental Protection Agency (EPA) awarding \$20B towards climate finance. With \$14B allotted towards the National Clean Investment Fund (NCIF) and \$6B to the Clean Communities Investment Accelerator (CCIA), these organizations can provide funds to Community Development Financial Institutions (CDFIs) to further support low-medium income energy projects. Another article highlighted national resistance to implementing ESG initiatives. Aversion spans from financial to legislative action, evidenced by decreased ESG mentions among S&P 500 earnings reports, outflow of capital from ESG funds, and initiated anti-ESG legislation across 37 states. Stacy Giwa highlighted the social and geographical differences in ESG tolerance.

A committee member inquired about peer institutions' investing styles. Brian Johnson explained that some peer endowments invest more actively, enabled by Separately Managed Accounts (SMAs) available to funds with high assets under management (AUM). Alternatively, endowments with lower AUM (most endowments, including USC's) utilize commingled funds that provide less control over assets.

Community Proposal Review

The committee has not received any community proposals since the previous quarterly ACIR meeting.

Adjournment

The meeting was adjourned at 10:07 a.m.

Follow-up Items

- The committee will identify pertinent professors, courses, and programs for promoting events, acquiring Q&A questions, and sourcing community proposals.
- Brian Johnson will prepare and internally circulate graphs showing the endowment's divestment progress over time.
- The Investment Office will continue assessing the feasibility and methodology of proxy voting engagement.

Dated: April 12, 2024