Date: April 20, 2016

To: Members of the Trustees Subcommittee on Shareholder Responsibility

From: Advisory Committee on Socially Responsible Investing (ACSRI)

Re: Recommendation to become a signatory to the CDP Climate Change program

The ACSRI voted on March 23 to recommend that Columbia University become an Investor Signatory to the CDP Climate Change program. This recommendation followed further consideration of the University’s investment and shareholder engagement practices as promised in the Committee’s November 2015 response to the divestment proposal of Columbia Divest for Climate Justice.

The purpose of CDP’s Climate Change program is to collect and disseminate standardized data on greenhouse gas emissions with a view towards (i) enabling investor engagement on this issue, (ii) providing data for research, and (iii) encouraging companies to focus on their carbon footprint and to take steps to manage it. This data collection and dissemination focus aligns well with the University’s mission of education and research on a critical issue and fits with the ACSRI’s “stand up for science” approach. It is consistent with the University’s preference for shareholder engagement over divestment. The cost to the University is de minimis. Columbia will be joining peer institutions such as Harvard and the University of California in becoming a CDP signatory. The data that CDP makes available to signatories will help the ACSRI formulate its own position on fossil fuel divestment.

Becoming a signatory entails a voluntary annual fee of $975 in 2016; the fee will be mandatory from 2017 onwards.

A periodic reassessment of the University’s signatory status would also be advisable.

CDP: Background

Founded in 2000 and operating from London, New York and Berlin¹, CDP (formerly the "Carbon Disclosure Project") is a nonprofit organization that works with shareholders and

¹ CDP has charitable status in the USA and is a registered charity in the UK, as is CDP Europe in Germany. It has partners in 18 of the world’s major economies who help deliver the program globally.
corporations to promote the disclosure of the greenhouse gas emissions ("GHG") of major corporations. In 2010, CDP was called "The most powerful green NGO you've never heard of" by the Harvard Business Review. CDP's climate change program aims to reduce companies' greenhouse gas emissions and mitigate climate change risk. To this end, CDP requests information on risks and opportunities related to climate from the world's largest companies on behalf of its institutional investor. CDP works with 3000 of the largest corporations in the world to help them ensure that an effective carbon emissions reduction strategy is made integral to their business. CDP also works with companies to obtain the relevant data for their global supply chain.

The underlying philosophy is that governments have been reluctant to develop stringent national limits on emissions, in part for fear of big companies relocating their factories and jobs to nations with laxer regulatory regimes. CDP attempts to sidestep these national interests by focusing on individual companies, and using the clout of institutional investors to exert pressure on companies to focus attention on carbon emissions, energy usage and reduction – wherever companies and assets may be located. It is thought that once companies disclose their emissions, they become aware of the issues involved and more willing and able to manage them.

In terms of collecting data on carbon footprints, CDP is effectively the only game in town. CDP has established the world's largest repository of GHG emissions and energy use data accounting for some 26% of global anthropogenic CO₂, and works towards establishing a globally-used standard for emissions and energy reporting. Other providers (both commercial and non-profit) overwhelmingly use CDP’s raw data. As a representative from the investment office of the UC California system put it in a presentation last June:

"It’s crucial that CDP exists and that we support the mission of collecting data from companies in order to increase transparency ... You can’t manage what you can’t measure."

He characterized becoming a signatory as a "no-brainer", as did the other speakers at the event.³

Signatories are limited to institutional investors only.

Possible Levels of Engagement for Columbia University

Currently the ACSRI does not contemplate a higher level of engagement with CDP beyond becoming a signatory to its Climate Change program, such as (a) becoming a signatory to the

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² Around 2012, the name was changed to reflect the broadening of the mission of the organization to encompass the three programs beyond the Climate Change program.

³ A link to the 45-minute video for the event is available at https://vimeo.com/131251704. Other endowment representatives at the event came from the New School and Harvard Asset Management (the comments of the latter are not publicly available beyond a statement that they use CDP’s data for shareholder engagement, company selection and research).
Carbon Action program as well, or to all four CDP programs, including Water and Forests or (b) CDP Investor Membership. For completeness, these stronger levels of engagement are briefly described below.

The level of engagement of signatories varies, on a voluntary basis. In the Climate Change program, CDP requests information “on behalf of” the signatories to the program, and provides an “engagement tool” to signatories -- a monthly spreadsheet that records which companies have received the questionnaire and whether they have responded. CDP obtains contact information for relevant officials at the companies and provides suggested text for follow-up letters reminding the companies to respond to the questionnaire. CDP currently has about 825 Climate Change signatories with a combined $100 trillion in assets.

The relatively recent Carbon Action program is more activist than the Climate Change program. CDP analyzes companies’ previous years’ reports and suggests ways for them to improve their performance by reducing their GHG emissions year-on-year, setting and publicly disclosing reduction targets, and identifying projects that deliver reductions at an acceptable return on investment. The program currently sends one of five letters (ranging from mild to stern) to remind companies of their performance, but its scope is expanding under the leadership of a newly hired expert. The process of having to respond to CDP often produces changed business practices that use less energy and, in many cases, a higher proportion of energy from renewable sources.

Over 300 of the Climate Change signatories, with US$22 trillion in assets under management, are currently also Carbon Action signatories.

In addition to its Climate Change and Carbon Action programs, CDP has related programs that collect information on water quality, supply chain environmental impact, deforestation and cities’ emissions and climate change strategies.

**CDP Data Collection**

The climate change data that CDP collects is self-reported; nearly 2000 businesses reported in 2014. Much of the data elicited has never been collected before. Questionnaires (available on the CDP website, www.cdproject.net) are distributed to 8000 companies globally (including supply chain firms). Among the US S&P 500 firms, about 70% respond, and this percentage has remained roughly constant in the past few years. Utilities and energy companies are generally less willing to respond.

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4 She is Helen Wildsmith, who will combine the job with her role at CCLA, one of the UK’s largest charity fund managers.

5 More than 70% in terms of market cap; larger companies are more responsive as they are better able to dedicate the resources needed to generate the data.
Of course a mandatory disclosure regime would generate more comprehensive data, but this is not the reality today though policymakers around the world are making proposals in that direction. It should be noted that to implement COP21, this data is needed; CDP’s reports follow the GHG emission reporting guidelines of the Intergovernmental Panel on Climate Change.

As disclosure of emissions-related data is CDP’s primary activity, the quality of the data is key. CDP encourages better reporting by recognizing companies with high-quality disclosure as top scoring companies in the Climate Disclosure Leadership Index (CDLI). CDLI scores are not affected by the actual amount of emissions reported but provide a perspective on the range and quality of responses to CDP’s questionnaire. Direct pressure from signatory institutions on the companies they invest in is also of value in this regard.

**CDP’s Partners and Funding**

CDP has obtained backing from blue chip investors including HSBC, JPMorgan Chase, Bank of America, Merrill Lynch, Goldman Sachs, American International Group, and State Street Corp. It works with corporations including Walmart, Tesco, Cadbury Schweppes, Procter and Gamble, Siemens, L’Oréal, Nestlé and many others to measure emissions throughout the supply chain.

CDP receives funding support from a wide range of organizations including foundations and governments. CDP also receives funding through corporate sponsorship, CDP member packages, and global partnerships.

The latest financial statements available on the website are for the year ending March 2014, in which total expenditure was just over £6 million.

**CDP Investor Signatories**

Investor Signatories are financial institutions including banks, investment managers, pension funds, insurers, foundations, endowments, private equity and real estate investors with an interest in addressing the companies they invest in or lend money to, on the key structural challenges presented by climate change and natural resource scarcity. CDP investor signatories have free access to the database of climate change, water and forest risk commodity information on thousands of disclosing companies. CDP’s investor signatories use CDP data for a wide range of purposes including integration into investment decision making and for shareholder engagement. Becoming a CDP signatory allows investors access to all company information at no charge through endorsement of the annual questionnaires.

Becoming a signatory is free in 2016, with a voluntary fee of $975. After 2016 the fee will be mandatory. The fee is the same irrespective of the number of programs the signatory chooses to support.

The data made available to signatory investors and lenders is not intended for the university community at large. There is a separate channel for making data available for use by students,
faculty and researchers, through an academic data package at a subsidized price of $2500 a year that gives full access to the current and historic public datasets. Over 150 papers published in peer-reviewed journals use or cite CDP data. Also, a CDP associate noted that a large part of the data is available open-source, for free.

Signatories are not obliged to provide data on their own carbon footprint.

Most signatories are private-sector financial institutions and include many major banks, institutional investors, etc. Some (but far from all) nonprofit signatories are listed below (those who are also Members, as described below, are starred *; Carbon Action signatories are marked +):

- California Public Employees' Retirement System*
- California State Teachers' Retirement System*
- California State Treasurer
- California State University, Northridge Foundation
- Harvard Management Company, Inc.
- New York City Employees Retirement System
- New York City Teachers Retirement System
- New York State Common Retirement Fund*
- New York State Comptroller
- The Colorado College
- The New School+
- The University of Edinburgh Endowment Fund
- TIAA CREF*
- Unity College
- University of California*+
- University of Massachusetts Foundation+
- University of Sydney Endowment Fund
- Universities Superannuation Scheme (USS), UK
- York University Pension Fund
- University of Toronto (intention to become a signatory announced March 2016)

The above list includes, inter alia, all signatories with "university", "school" or "college" in their name as of March 2016.
There is a variety of reasons why many of Columbia's Ivy League peers are, unlike Harvard and the University of California, not among the signatories. Some have simply not considered the issue for lack of requests coming from students or faculty. Some feel that their directly managed assets are so small a proportion of their endowment that CDP data would serve no purpose in daily investment decisions; the impact on their environmental stewardship would not be substantive, and it is inappropriate to make purely symbolic gestures. Others are waiting for the carbon footprint metrics to become better developed, arguing that in the meantime it would be premature to use the data in guiding investment strategies -- even while conceding that becoming a signatory would signal an understanding of the issues and concerns. One peer school observes that the CDP data is also released directly by companies themselves and that it generally supports shareholder proposals seeking disclosure of greenhouse gas emissions.
CDP Investor Members

A higher level of support is CDP Investor Membership, which allows signatories to signal their commitment to and financial support of CDP, and gives access to powerful software enabling easy analysis of company responses. Membership is open to any CDP signatory and offers a number of additional benefits including:

- Enhanced access to all CDP responses via customized reports in excel format;
- Engagement facilitation;
- Improved understanding of portfolio company climate change, water and forests risk management and energy efficiency initiatives; and
- Enhanced recognition on CDP global reports and on the CDP website.

The annual fee to become a member is $7,000 for organizations with assets of up to $10 billion and $9,000 for organizations with assets of $10 billion or more.

There are currently close to one hundred Investor Members including asset managers, insurers, pension funds and other financial institutions as well as prominent nonfinancial companies such as BP. The Investor Members include two universities: the University of California and the University of Toronto.

CDP Partners

CDP also has a number of service partners that work with it to further its goals. Many of these are nonprofits; in the education and training area, CDP partners with a university, the Carroll School of Management Center for Corporate Citizenship at Boston College.

Useful Links

CDP website

Webinar for college endowments (June 2015)