

Investment Office

# CONSOLIDATED ENDOWMENT FUND

Environmental, Social, and  
Governance Report, 2023-24

May 2025



## CONTENTS

Executive Summary	1
Introduction	4
The Function and Purpose of Pitt's Endowment	6
Investment Office Statement of Governance	8
CEF ESG Updates	9
CEF Sustainable Investing Road Map and Future Commitments	11



## EXECUTIVE SUMMARY

The University of Pittsburgh released its inaugural environmental, social, and governance (ESG) Report in March 2022.<sup>1</sup> This report, for the fiscal year ended June 30, 2024, is the fourth edition of what the University expects to continue to release annually.

The University of Pittsburgh's largest financial asset is its Consolidated Endowment Fund (CEF), valued at \$5.7 billion as of June 30, 2024. The CEF supports financial aid, scholarships, faculty positions, and research activities and links past, current, and future generations of University stakeholders, including students, faculty, and staff.

The primary investment objective of the CEF is to earn a rate of return over an extended period of time that is sufficient to support a prudent spending policy while preserving its inflation-adjusted asset value. It is the

University's core belief that supporting responsible business practices is integral to producing strong investment outcomes.

This is not a new concept at Pitt. In fact, the Investment Office (formerly the "Office of Finance"), which manages the CEF, has been incorporating many of the concepts now referred to as "ESG factors" into its due diligence process on a case-by-case basis since 1990. In an effort to formalize that approach, an ESG Policy for the CEF was established in March 2020.<sup>2</sup>

<sup>1</sup> Available at [https://www.cfo.pitt.edu/sites/default/files/esg\\_report\\_final.pdf](https://www.cfo.pitt.edu/sites/default/files/esg_report_final.pdf)

<sup>2</sup> Available at <https://www.financeoperations.pitt.edu/sites/default/files/esgpolicyfinal3-25-20.pdf>





## This report provides updates on the following topics:

### CEF Fossil Fuel Exposure:

Total (public and private) exposure to fossil fuels decreased from 8.2% of the CEF as of June 30, 2023, to 7.8% as of June 30, 2024. Private investment exposure to fossil fuels, which decreased from 6.2% of the CEF as of June 30, 2023, to 5.9% as of June 30, 2024, is currently projected to become de minimis around 2035-36, given current trend lines. This forecast is likely to fluctuate significantly over time for reasons outlined in this report.

### Policies Regarding Direct Engagement with Underlying Companies and Proxy Voting:

The report provides an overview of the policies governing the University's direct engagement with underlying investment holdings regarding ESG matters and its approach to proxy voting.

### External Investment Manager ESG Policies:

External investment managers currently overseeing approximately 94% of the CEF by value have formal ESG policies in place or have indicated that they take ESG considerations into account when making investments. Only ESG considerations that have financial implications (enhancing returns or mitigating risk) are taken into account – investments are not made to promote political or social causes.

### CEF Sustainable Investing Road Map and Future Commitments:

Four commitments were made in the inaugural ESG Report and are outlined on page 11. The Investment Office has made progress on these commitments since that report was issued, including the maintenance of an ESG section on the Pitt Finance & Operations website and participation in formal and informal discussions

with peers regarding ESG-related financial considerations.<sup>3</sup>

Recognizing that certain ESG-related factors can have direct financial implications, the University has implemented a more consistent approach to ESG than in the past. As standardized metrics by which to gauge ESG-related financial considerations are developed based on rigorous data, the Investment Office will consider including them in future reports.

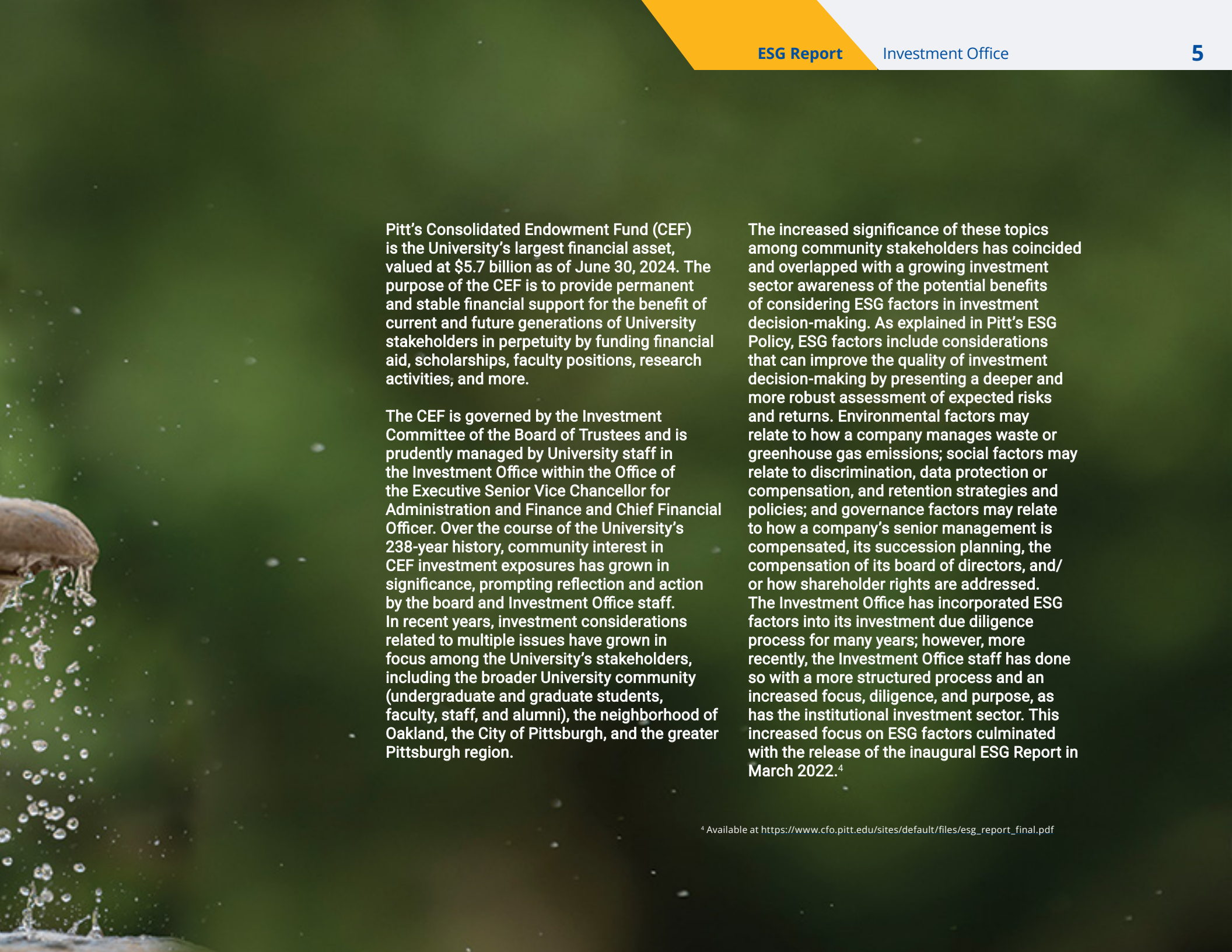
It is important to note that this report focuses only on ESG considerations as they relate to CEF investments. The University of Pittsburgh has been actively involved much more broadly in sustainability initiatives for more than 30 years, especially in connection with its operations (for further information, please visit <https://sustainable.pitt.edu>).

<sup>3</sup> Available at <https://www.financeoperations.pitt.edu/units/investment-office/environmental-social-and-governance-esg-investment-considerations-pitt>

## INTRODUCTION

**F**ounded in 1787, the University of Pittsburgh has a mission to provide high-quality undergraduate and graduate programs in the arts and sciences and professional fields while supporting broader public interests contributing to the social, intellectual, and economic development of the Commonwealth of Pennsylvania, the nation, and the world. This mission is future oriented, perpetual in nature, and intrinsically supportive of positive societal and environmental developments beyond the University's campuses.





Pitt's Consolidated Endowment Fund (CEF) is the University's largest financial asset, valued at \$5.7 billion as of June 30, 2024. The purpose of the CEF is to provide permanent and stable financial support for the benefit of current and future generations of University stakeholders in perpetuity by funding financial aid, scholarships, faculty positions, research activities, and more.

The CEF is governed by the Investment Committee of the Board of Trustees and is prudently managed by University staff in the Investment Office within the Office of the Executive Senior Vice Chancellor for Administration and Finance and Chief Financial Officer. Over the course of the University's 238-year history, community interest in CEF investment exposures has grown in significance, prompting reflection and action by the board and Investment Office staff. In recent years, investment considerations related to multiple issues have grown in focus among the University's stakeholders, including the broader University community (undergraduate and graduate students, faculty, staff, and alumni), the neighborhood of Oakland, the City of Pittsburgh, and the greater Pittsburgh region.

The increased significance of these topics among community stakeholders has coincided and overlapped with a growing investment sector awareness of the potential benefits of considering ESG factors in investment decision-making. As explained in Pitt's ESG Policy, ESG factors include considerations that can improve the quality of investment decision-making by presenting a deeper and more robust assessment of expected risks and returns. Environmental factors may relate to how a company manages waste or greenhouse gas emissions; social factors may relate to discrimination, data protection or compensation, and retention strategies and policies; and governance factors may relate to how a company's senior management is compensated, its succession planning, the compensation of its board of directors, and/or how shareholder rights are addressed. The Investment Office has incorporated ESG factors into its investment due diligence process for many years; however, more recently, the Investment Office staff has done so with a more structured process and an increased focus, diligence, and purpose, as has the institutional investment sector. This increased focus on ESG factors culminated with the release of the inaugural ESG Report in March 2022.<sup>4</sup>

<sup>4</sup> Available at [https://www.cfo.pitt.edu/sites/default/files/esg\\_report\\_final.pdf](https://www.cfo.pitt.edu/sites/default/files/esg_report_final.pdf)

## THE FUNCTION AND PURPOSE OF PITT'S ENDOWMENT

It is important to review the broader context of the CEF, including why it exists, who governs and manages it, and how it is structured.

### What is an endowment?

An endowment is a gift of funds or property whose purpose is to provide the recipient with a source of revenue. Pitt's endowment is designed to keep the original gift principal intact while using some or all of the resulting investment returns as revenue that financially supports the University's operating budget, primarily in the form of financial aid for students. The two primary goals of general endowment management are:

- 1. to preserve** the long-term real purchasing power of assets by generating net investment returns that match or exceed the endowment's annual spending and the eroding effects of inflation and
- 2. to provide** a reliable stream of meaningful revenue for the University.

There is an essential need for universities to invest an endowment's principal effectively in order to generate sufficient income to provide financial aid, support endowed chairs and professorships, and fund operations, among other uses.

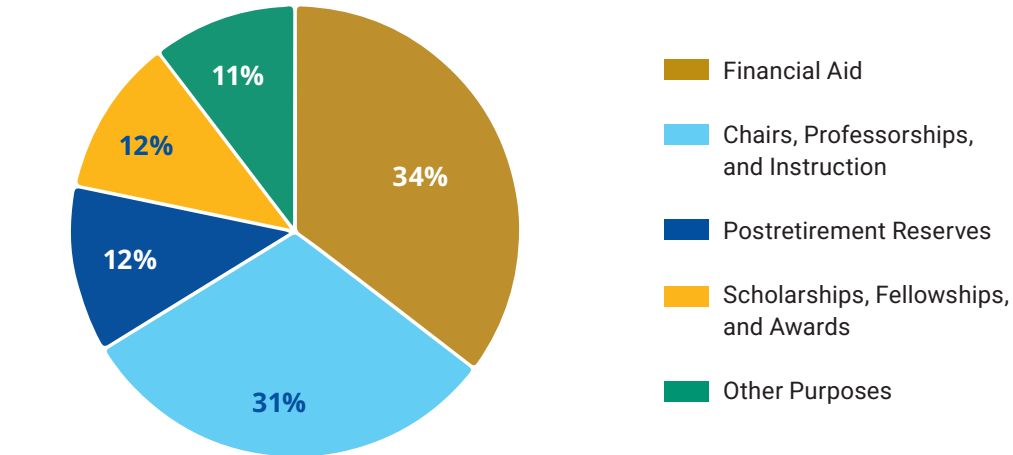


Figure 1: CEF by Purpose, as of June 30, 2024

### What are Pitt's endowment characteristics?

The CEF is an investment pool comprising more than 3,000 individual endowment funds, all with designated purposes and restrictions, that are commingled (pooled together) to facilitate more efficient investment. Each endowment fund that the University accepts has a clearly stated, legally binding purpose for the assets provided to which the University must adhere. Additionally, the legal documents accompanying CEF investments typically include confidentiality provisions that prevent the University from disclosing specific investments or investment managers. Confidentiality provisions are deemed necessary to avoid impairing long-term investment returns.

Among CEF objectives, the most critical to the University's mission is the long-term preservation of assets on a real (inflation-adjusted) basis, as they provide a steady, meaningful stream of income to University beneficiaries. Figure 1 indicates the defined purposes for Pitt's CEF funds.<sup>5</sup> These endowed gifts provide perpetual financial support for scholarships, fellowships, faculty chairs, instruction, and other University programs and services.<sup>6</sup>

<sup>5</sup>"Other Purposes" include research, library and public service, general and undesignated funds, long-term reserve fund, and development and institutional support.

<sup>6</sup>The University provides postretirement medical and life insurance benefits to eligible employees and their spouses upon retirement through a contributory benefit plan. The University has elected to fund its postretirement liability via a designated endowment fund that is managed within the CEF and referred to as postretirement reserves.

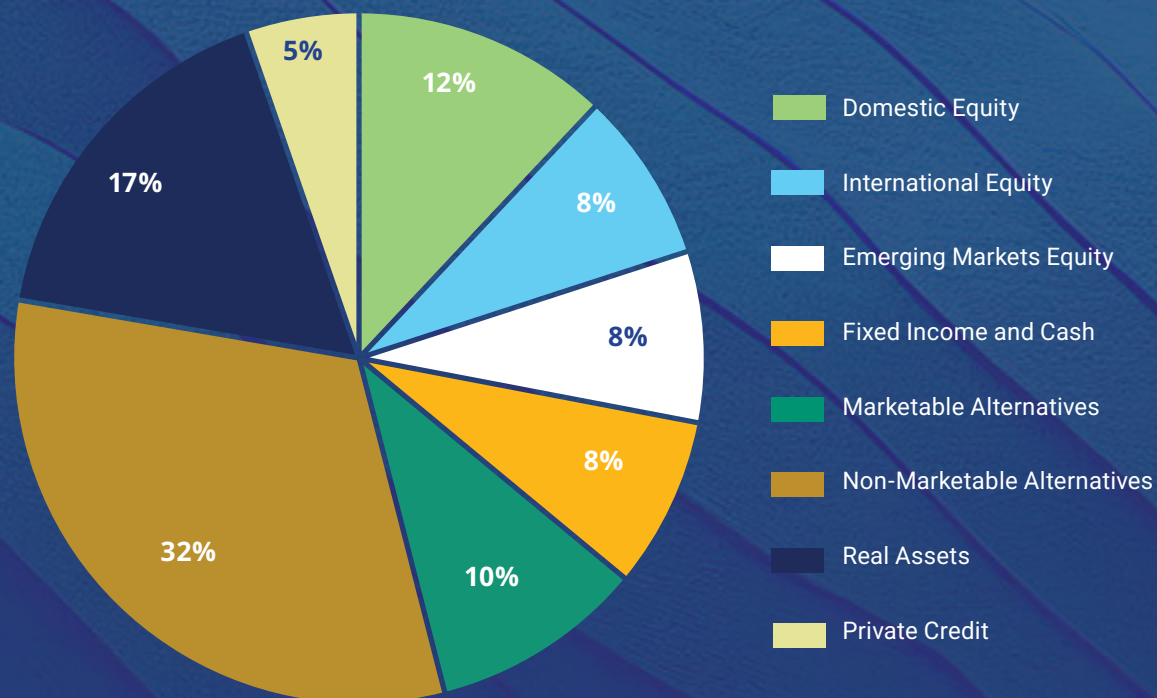
## HOW ARE INVESTMENTS WITHIN THE CEF MANAGED?

The Investment Committee of the University's Board of Trustees is responsible for establishing and approving the guidelines governing how the CEF may be invested, including the approval of the long-term target asset allocation for the CEF. Figure 2 reflects the long-term target asset allocation for the CEF as of June 30, 2024.

Within the Office of the Executive Senior Vice Chancellor for Administration and Finance and Chief Financial Officer, the Investment Office, led by the chief investment officer (CIO), is responsible for investing the CEF pursuant to the guidelines established by the Investment Committee, primarily through the selection and monitoring of external investment managers and the reporting of their performance to the Investment Committee.

The external investment managers who manage money on behalf of the CEF (of which there are well over 100) are typically responsible for identifying and making specific investments in securities in accordance with their stated and agreed-upon investment approach.

Figure 2: Long-term Target Asset Allocation (as of June 30, 2024)





## INVESTMENT OFFICE STATEMENT OF GOVERNANCE

Management of the CEF is guided by the University's Statement of Governance, Investment Objectives, and Policies for the Consolidated Endowment Fund (Statement of Governance), which was made effective Sept. 17, 2012, and last amended and restated Jan. 25, 2023.<sup>7</sup> The Statement of Governance addresses "Social Responsibility" in Section XIV:<sup>8</sup>

To fulfill the University's stated mission and meet the expectations of the donors who have entrusted gifts to the University, the University must manage its CEF wisely. As stated previously, the primary investment objective established for the CEF is to maximize the financial return on such assets, taking into account risk and other considerations as more specifically set forth in this Statement, in order to provide a reliable stream of meaningful income while preserving the CEF's real asset value. Accordingly, the Committee shall not apply non-financial constraints pertaining to investment holdings of the CEF unless there is a situation of such magnitude that the Board specifically directs the Committee to consider such non-financial parameters.

In evaluating any specific social responsibility concern as directed by the Board, the Committee may consider the gravity of the social impact, the University's need to maintain a sound financial investment policy, the potential effectiveness of the Committee's investment or voting decisions to influence positive change, and such other considerations as the Committee may deem appropriate. In no event will a recommendation be made that an investment be selected or retained solely for the purpose of encouraging or expressing approval of a company's activities or, alternatively, for the purpose of placing or leaving the University in a position to contest a company's activities.

<sup>7</sup> Available at [https://www.cfo.pitt.edu/sites/default/files/2023\\_01\\_25\\_statement\\_of\\_governance\\_-\\_amended\\_and\\_restated\\_-\\_final.pdf](https://www.cfo.pitt.edu/sites/default/files/2023_01_25_statement_of_governance_-_amended_and_restated_-_final.pdf)

<sup>8</sup> This language also is referenced and repeated in the CEF's ESG Policy.

## CEF ESG UPDATES

**B**elow are updates on total fossil fuel exposure within the CEF and projected private investment fossil fuel exposure, an overview of the policies governing the University's direct engagement with underlying investment holdings regarding ESG matters and its approach to proxy voting, and a breakdown of the percentage of the CEF managed by external managers who have formal ESG policies or have indicated that they take ESG considerations into account when making investments.

### CEF Fossil Fuel Exposure

Total (public and private) exposure to fossil fuels decreased from 8.2% of the CEF as of June 30, 2023, to 7.8% as of June 30, 2024.

Public investment exposure to fossil fuels decreased from 2.0% of the CEF as of June 30, 2023, to 1.9% as of June 30, 2024. Public investment exposure, which is held indirectly via index funds and funds managed by external investment managers, is expected to continue to fluctuate over time.

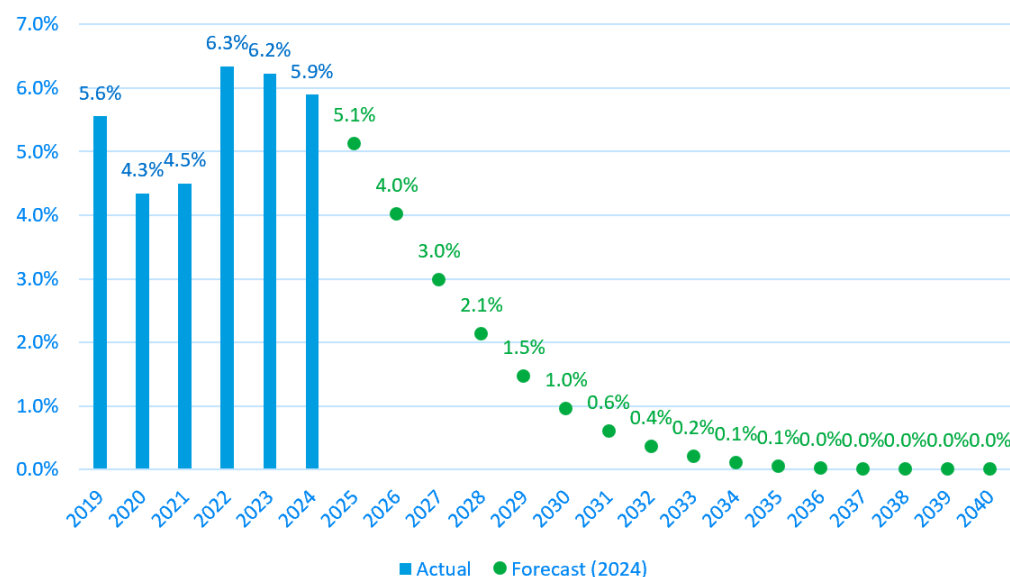
Private investment exposure to fossil fuels decreased from 6.2% of the CEF as of June 30, 2023, to 5.9% as of June 30, 2024. Figure 3 provides updated projections of the CEF's expected private investment exposure to fossil fuels, which is forecast to become de minimis around 2035-36, given current trend lines.

Forecasts of the future percentage of the CEF invested in private fossil fuel investments are subject to variation as a result of several factors, including: changes in the future market value of the fossil fuel investments; the future value of the overall CEF; the methodology/model used to forecast the investments; and the assumptions used within the model, as assumptions are updated and refined on an ongoing basis in response to changes in market forecasts. Even relatively minor updates to any of the aforementioned factors can result in significant variability in

projections. Importantly, the timeframe over which the CEF's private investment managers liquidate the investments is generally not within the University's control. Although the associated funds typically have stated termination dates, it is not unusual for such funds to have their termination dates extended for several additional years. The projections presented herein represent the Investment Office's best estimates as of June 30, 2024.

Although the University does not apply negative screens to the CEF with respect to fossil fuel investments (in accordance with the decision of the Board of Trustees based on the findings and recommendations of the Ad Hoc Committee on Fossil Fuels), the Investment Office has not made any direct investments in fossil fuel companies or new commitments to fossil fuel-focused funds in more than four years.

Figure 3: CEF Private (Illiquid) Fossil Fuel Exposure Forecast<sup>9</sup>



<sup>9</sup> Actual and projected illiquid fossil fuel exposures are as of June 30 for each year.

## Direct Engagement with Operating Companies

Ongoing conversations with University stakeholders have pointed to the value in clarifying the University's approach to engagement with underlying companies and investment holdings within the CEF. The Investment Office follows the approach outlined in the ESG Policy for the CEF:

### Direct Engagement with Operating Companies:

Unless it is making a direct or co-investment, the University will not engage directly with underlying companies or investment holdings in the CEF, but will instead delegate this responsibility to the respective external investment managers utilized by the CEF.

The Investment Office does not typically make direct investments in individual operating companies, instead preferring to invest in funds managed by third-party investment managers who are responsible for selecting the underlying investments. Co-investments represent one exception to this general approach and are defined to include direct investments in individual companies made alongside an investment fund managed by one of the CEF's existing third-party investment managers. Co-investments are used selectively to increase exposure to specific companies and typically provide an opportunity to do so on a no-fee or reduced-fee basis. In evaluating specific co-investments in the past, the Investment Office has engaged in direct conversations regarding ESG considerations.

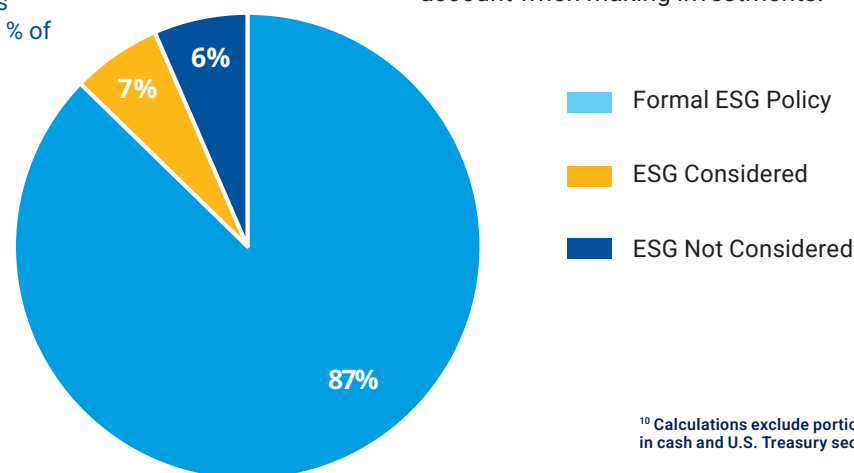
## Proxy Voting

The ESG Policy for the CEF also outlines the University's approach to proxy voting:

**Proxy Voting:** The University's beliefs that the investment managers that are carefully selected and employed by the University are best suited to vote the proxies of shares held in the portfolios that they manage. Therefore, responsibility for voting such proxies shall be delegated to the respective external investment managers utilized by the CEF. In the event of any regulatory or other statutory requirement that prohibits the investment manager from voting on behalf of the University, the CIO shall assume responsibility for voting such proxies.

Accordingly, the University does not typically engage in the voting of proxies, relying instead on its external investment managers to do so. To the best of the Investment Office's knowledge, there currently are no regulatory or other statutory requirements that prohibit any of the CEF's investment managers from voting proxies on behalf of the University, precluding the need for the CIO to assume responsibility for voting such proxies.

Figure 4: External Investment Managers with ESG Policies (by % of CEF value)



<sup>10</sup> Calculations exclude portion of CEF invested in cash and U.S. Treasury securities.

## External Investment Manager ESG Policies

Beginning in fiscal year 2019 (prior to the adoption of the ESG Policy in March 2020), the Investment Office began asking its external investment managers whether they possessed ESG policies. At that time, some external managers indicated that they had adopted ESG policies, but many others indicated that they did not yet have formal ESG policies in place. The Investment Office held discussions with managers and encouraged them to evaluate relevant ESG-related issues and develop policies to address them.

External investment managers currently overseeing approximately 94% of the CEF by value have formal ESG policies in place or take ESG considerations into account when making investments as of June 30, 2024. Figure 4 provides a breakdown of CEF assets managed by managers with formal ESG policies, by managers that do not have formal ESG policies but take ESG considerations into account, and by managers that do not explicitly take ESG considerations into account when making investments.<sup>10</sup>

## CEF SUSTAINABLE INVESTING ROAD MAP AND FUTURE COMMITMENTS

In its inaugural ESG Report, the Investment Office made four commitments to continue to enhance and improve the integration of ESG factors into the University's investment processes. Updates on each of these commitments are provided below:

### 1. Launch an ESG Section of the CFO Website:

In July 2022, the University launched an ESG page on the CFO website to serve as a portal for new CEF documents and investment-related ESG disclosures.<sup>11</sup> This information continues to be available via the Pitt Finance & Operations website.

### 2. Expand and Deepen ESG Reporting:

The Investment Office continues to monitor the evolution of standards for ESG-related financial considerations. As it currently stands, the investment industry continues to lack standardized quantitative metrics to evaluate ESG factors, and this dearth of data is most acute for private investments, which constitute a significant percentage of the CEF. As standardized metrics by which to gauge ESG-related financial considerations are developed, the Investment Office will consider including them in future reports.

### 3. Explore Sustainable Investments:

The University continues to explore investments that can enhance risk-adjusted financial returns

while advancing sustainable outcomes. It is important to note that any such investments must be competitive with other investment opportunities from a financial standpoint to ensure that the CEF assets entrusted to the University by donors are managed in accordance with the University's fiduciary duty.

### 4. Join Collaborative ESG Initiatives:

The Investment Office periodically meets with collaborative organizations focused on various ESG initiatives to evaluate their alignment with the University's goals, values, and governance framework. We are a member of the Institutional Limited Partners Association (ILPA), a global organization comprised of nearly 600 institutions that invest in private markets. Among its many offerings, ILPA provides resources and education regarding ESG issues and provides us with the opportunity to collaborate with peers and subject matter experts. We also participate in less formal working groups with other endowments and foundations outside of ILPA to discuss ESG-related financial considerations.

<sup>11</sup> Available at <https://www.financeoperations.pitt.edu/units/investment-office/environmental-social-and-governance-esg-investment-considerations-pitt>



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