THE NEW SCHOOL FOR GENERAL STUDIES THE NEW SCHOOL FOR SOCIAL RESEARCH MILANO THE NEW SCHOOL FOR MANAGEMENT AND URBAN POLICY PARSONS THE NEW SCHOOL FOR DESIGN EUGENE LANG COLLEGE THE NEW SCHOOL FOR LIBERAL ARTS MANNES COLLEGE THE NEW SCHOOL FOR MUSIC THE NEW SCHOOL FOR DRAMA THE NEW SCHOOL FOR JAZZ AND CONTEMPORARY MUSIC

THE NEW SCHOOL
A UNIVERSITY

Investment Committee of the Board of Trustees
The New School
66 W 12th St.
New York, NY 10011

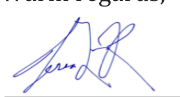
Dear colleagues,

Given the mandate of the Advisory Committee on Investor Responsibility (ACIR) to assist the Investment Committee of the Board of Trustees in considering environmental, social, and governance (ESG) issues in the management of The New School's endowment, enclosed please find for your review and approval an *Investor Action Plan for Sustainability: Fostering Equity and Opportunity Across Generations*. This report reflects the consensus recommendations of the trustee, faculty, student, and staff members of the ACIR. As a body, we recommend that the Investment Committee bring this *Investor Action Plan for Sustainability* to the full Board of Trustees for consideration and approval at the next Board of Trustees meeting.

We present this report in light of the urgent global challenges posed by climate change, The New School's strategic and values-driven commitment to sustainability[1], the increasing possibility of government regulatory action to prevent increasing damage to the planet and the economy[2], and the concerns expressed regarding climate change risk[3] by the largest endowment-focused student movement in a generation. This action plan outlines a clear and coherent strategy to safeguard both our planet and the university's endowment investments. Adoption of these recommendations would be a significant step forward in simultaneously advancing The New School's mission and ethical values, and enhancing our financial position for the long-term.

I am honored to contribute this significant undertaking by our committee to addressing these critically important challenges, and I look forward to discussing these issues further with you. Please feel free to contact Bevis Longstreth or myself if you have any questions.

Warm regards,



Terra Lawson-Remer, JD, PhD
Chair, Advisory Committee on Investor Responsibility
Assistant Professor, International Affairs

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[1] Advisory Committee on Investor Responsibility and the Board of Trustees of The New School, New School Policy on Investor Responsibility (2009), http://www.newschool.edu/WorkArea/linkit.aspx?LinkIdentifier=id&ItemID=63647

[2] Carbon Tracker Initiative, Unburnable Carbon 2013: Wasted Capital and Stranded Assets (2013), http://carbontracker.live.kiln.it/Unburnable-Carbon-2-Web-Version.pdf

[3] Justin Gillis, To Fight Climate Change, Students Aim at College Portfolios, New York Times (Dec. 4, 2012) http://www.nytimes.com/2012/12/05/business/energy-environment/to-fight-climate-change-college-students-take-aim-at-the-endowment-portfolio.html

Climate Change and The New School

An Action Plan for Investor Sustainability:
Fostering Equity and Opportunity Across Generations

REVISED: DECEMBER 31, 2013

I. Summary

Fossil fuel investments pose a clear and existential threat to future generations, eroding environmental sustainability through the production and emission of climate change pollutants. They also pose a serious risk to the reputation of The New School as a leader in sustainability and progressive education. Climate change is an increasingly important issue for young people in the 21st century; failure to act now on the climate change implications of our endowment investments would be a profound missed opportunity to address this significant challenge, with serious negative effects on student recruitment and enrollment. Fossil fuel investments additionally pose a serious risk to the fiduciary health of our endowment and the sustainability of the underlying value of our investment assets. Given the increasing likelihood of regulatory action by national, sub-national, and multinational bodies globally to restrict the emission of climate pollutants in the medium-term, in response to the existential threat posed by global warming, fossil fuel companies face substantial regulatory risks that will result in stranded assets—risks that are not reflected in current asset prices.[4]

The Advisory Committee on Investor Responsibility therefore recommends that The New School adopt a six-pronged *Action Plan for Investor Sustainability* to address the environmental, fiduciary, and reputational risks posed by in-action on climate change. This plan entails: petitioning corporations in which The New School holds investments for improved disclosure standards; petitioning the Securities and Exchange Commission (SEC) for enhanced disclosure rules; petitioning the Financial Accounting Stability Board (FASB) for enhanced disclosure rules; working with fellow institutional investors to reevaluate the current pricing structure for fossil fuel assets; and divesting from fossil fuel companies held in The New School endowment portfolio.

[4] Carbon Tracker Initiative, Unburnable Carbon 2013: Wasted Capital and Stranded Assets (2013), http://carbontracker.live.kiln.it/Unburnable-Carbon-2-Web-Version.pdf

II. Systemic and Catastrophic Risk: Environmental, Reputational, and Financial

Rising temperatures around the globe are a reality, and so too is the primary cause: energy-related CO2 emissions caused by human beings.[5] Long-term analysis shows the world traveling down a very unsustainable track. Our planet has maintained a healthy level of carbon in the atmosphere for most of its history, but carbon pollution has now reached a critical level and is escalating at a more rapid pace than previously expected.[6] Unless concerted action is taken now to establish large restrictions on carbon emissions internationally, scientists predict unprecedented extreme heat waves that will devastate food production and ecosystems; rising sea-levels likely to swamp coastal cities from Bangkok to Amsterdam; more severe storms and intense tropical cyclones; and droughts and floods that will threaten food security, water resources, and livelihoods across Africa, Asia, Europe, and the Americas.[7] In regards to previous scientific predictions involving climate change, we now know that the globe's climate system is more, not less, sensitive to man-made assault than previously understood.[8] The melting of the polar icecaps releases trapped methane and carbon dioxide, causing climate change that "feeds" on itself - even after humans reduce carbon emissions.[9] This further highlights the urgency surrounding climate change: if action is not taken soon by governments to curb carbon emissions, we will see climate damage that cannot be reversed.

The New School faces a fundamental reputational and branding risk from failing to take action on fossil fuel investments, while implementation of a clear strategy to address the climate change implications of our endowment investments would significantly strengthen our reputation as a leader in sustainability and progressive education. Leadership on fossil fuel investments will increase both the quantity and quality of student applications, while failure to act on this issue will erode interest in The New School among precisely those potential applicants whom we most wish to attract. Climate change is the most pressing issue for the young generation.[10] According to

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[5] Intergovernmental Panel On Climate Change, Fourth Assessment Report: Climate Change (2007), http://www.ipcc.ch/publications_and_data/ar4/wg1/en/spm.html
[6] Intergovernmental Panel On Climate Change, Fourth Assessment Report: Climate Change (2007), http://www.ipcc.ch/publications_and_data/ar4/wg1/en/spm.html
[7] Potsdam Institute for Climate Impact Research and Climate Analytics, Turn Down the Heat: Climate Extremes, Regional Impacts, and the Case for Resilience (June 2013), Washington DC: World Bank.
[8] Intergovernmental Panel On Climate Change, Fourth Assessment Report: Climate Change (2007), http://www.ipcc.ch/publications_and_data/ar4/wg1/en/spm.html
[9] NASA'S Jet Propulsion Laboratory, Is a Sleeping Climate Giant Stirring in the Arctic? (June 10, 2013), http://www.jpl.nasa.gov/news/news.php?release=2013-197
[10] The New York Times, A New Divestment Focus: Fossil Fuels (2013), http://dealbook.nytimes.com/2013/09/05/a-new-divestment-focus-fossil-fuels/

research by the United Nations, "nearly 90 per cent of young people across the globe think world leaders should do 'whatever it takes' to tackle climate change."[11] Youth are now also more likely to become loyal to a brand if they see it is taking concrete steps to address climate change.[12] The New School cannot stall in its efforts to maintain an image as the most sustainable university in the United States, as there was a 400% increase in sustainability education programs from 2011 to 2012,[13] making The New School's existing sustainability programs less the exception and more the standard. The challenge to act soon on fossil fuel investments is particularly acute for The New School, which has long based its reputation, and its appeal to students in an increasingly competitive educational market, on its longstanding tradition of progressive thinking and practice. To fall short of expectations in this regard would be far more damaging to The New School than a similar lapse would be for our peer institutions, while visible leadership on this issue will reinforce our current reputation as the leading progressive university in United States. The student fossil fuel divestment movement has now spread to over 300 college campuses. Yet, to date, the largest academic institution in the United States to divest is Unity College, in Maine, with a $14.5 million endowment. Should The New School divest it would become the largest university in the nation to do so, further solidifying our position as the leading progressive university with a strong commitment to environmental sustainability—strengthening our appeal among potential students, and bolstering the quality and quantity of student enrollment at all levels.

In addition to the environmental and reputational risks associated with fossil fuel investments, for investors, particularly institutional investors required to act as prudent and informed fiduciaries, the present state of the planet in regard to climate change poses serious and growing financial portfolio risks. Experts concur that if we are to avoid a rise in global temperatures over the danger threshold of 2°C, only 20% of total fossil fuel reserves can be burned.[14] Assuming a pro-rata allowance for the top 200 publicly listed oil and gas and mining companies, 60% to 80% of the reserves of these 200 companies are unburnable—meaning these reserves are in fact 'stranded assets' that are

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11 United Nations Environmental Programme, Young People Urge World Leaders to Combat Climate Change (2008), http://www.unep.org/Documents.Multilingual/Default.asp?DocumentID=548&ArticleID=5961&l=en
12 Carbon Trust, New Research Examines Young Adult's Attitudes Towards Climate Change and Carbon Footprinting (2012), http://www.carbontrust.com/news/2012/04/new-research-reveals-young-adults-attitudes-towards-climate-change-and-carbon-footprinting
13 AASHE, Higher Education Sustainability Review (2012), http://www.aashe.org/files/publications/he-review/2012/he_sustainability_review_2012.pdf
14 International Energy Agency, World Energy Outlook 2012 (Nov. 2012), http://www.iea.org/publications/freepublications/publication/English.pdf

actually liabilities once regulatory risk is considered.[15] Therefore fossil fuel companies are, at present, severely mispricing their assets and misleading the investing public about their future prospects. Analysts at HSBC bank, in a recent report, reckon that the current market value of the equities of these companies—$4 trillion—would fall between 40% and 60% should governments act to hold temperatures below the 2°C bound.[16] The mispricing risk grows more severe when one considers how these companies are electing to spend their available cash flow. Last year, the top 200 publicly traded fossil fuel companies allocated some $674 billion towards exploration and extraction of new reserves.[17] In other words, rather than taking proactive measures to mitigate the risk of stranded carbon assets by investing in alternative energy, these companies are following the conventional business model of recycling fossil fuel revenues into replacing reserves—wasting capital on developing unburnable assets.

III. Six-Prong Plan

The ACIR has developed a six-pronged plan of action in response to these concerns. The plan outlined here aims to achieve enhanced disclosure by fossil fuel companies regarding the regulatory risk posed to their assets and revenues from potential government restrictions on carbon emissions, and to reallocate our endowment investments away from risky and unsustainable companies whose business model requires substantial and ongoing greenhouse gas emissions, and whose current disclosures mislead the investing public as to the inflated value of their assets. Given adequate information, the marketplace will determine to what extent the equities and debt of these companies are overpriced; disclosure of material information is a prerequisite for prudential investment management.

We recommend that The New School:

1. Petition company management, through general purpose shareholder resolutions proposed in company proxy statements, to disclose all carbon-related risks to asset values and revenues, and to quantify a range of possible outcomes, showing the consequences of each outcome for asset values, revenues, income, business plans, and capital market pricing for securities;

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[15] Carbon Tracker Initiative, Unburnable Carbon 2013: Wasted Capital and Stranded Assets (2013), http://carbontracker.live.kiln.it/Unburnable-Carbon-2-Web-Version.pdf
[16] HSBC Global Research, Oil & Carbon Revisited: Value at Risk from 'Unburnable' Reserves, (Jan. 25, 2013), http://gofossilfree.org/files/2013/02/HSBCOilJan13.pdf
[17] Carbon Tracker Initiative, Unburnable Carbon 2013: Wasted Capital and Stranded Assets (2013), http://carbontracker.live.kiln.it/Unburnable-Carbon-2-Web-Version.pdf

2. Petition the Securities and Exchange Commission (SEC) to adopt a rule requiring oil, gas, and mining companies to disclose all carbon-related risks to asset values and revenues, and to quantify a range of possible outcomes, showing the consequences of each outcome for asset values, revenues, income, business plans, and capital market pricing for securities;

3. Petition the Financial Accounting Standard Board (FASB) to mandate the enhanced disclosure standards summarized above;[18]

4. Request support from fellow institutional investors for these disclosure initiatives;

5. Allocate 2-5% of The New Schools' endowment investments towards new technology alternative energy;

6. Divest from any oil, gas, mining, and other fossil fuel exploration, refining, extraction, and production companies owned in The New School's endowment.

IV. Conclusion

It is of the utmost importance that the Board of Trustees considers the risks, future ramifications, and opportunity costs of inaction on this matter. Urgent realignment of and engagement on mispriced fossil fuel investments is compelled not only by an ethical obligation to future generations, it is also required as a financial and reputational imperative. Failure to act, and soon, will bring unavoidable downside risks with serious consequences to the financial and reputational health of the university, while visionary proactive leadership on this issue today will generate significant benefits to The New School in the near term. The ACIR, working with the Office of Business and Finance, and employing *pro bono* counsel where applicable, is prepared to execute the six-prongs of this action plan on behalf of the Investment Committee, reporting to it and to the Board of Trustees as appropriate to keep all informed.

[18] Basing the argument on a sound analogy to the FASB's rules (a) in 1979, addressing the future possible and probable impacts of rampant inflation (Financial Accounting Standards Board, Summary of Statement No 33: Financial Reporting and Changing Prices (Sept. 1979)), and (b) in 1998, addressing the future possible and probable impacts of Y2K (Illiano, G. and Bentz, J., SEC INTERPRETATIVE RELEASE ON DISCLOSURE OF YEAR 2000 ISSUES, The CPA Journal (Feb. 1999)).