Proposal to Luther College Investment Committee
To President Torgerson, Diane Tacke, Paula Meyer, and the Investment Committee

After much research we propose that in keeping with Luther College’s mission of “serving with distinction for the common good,” the investment committee implement an advisory sub-committee to examine fund broker recommendations and report on the sustainability and social responsibility of our funds. This advisory body would investigate the social and environmental impact of our investments, mirroring best practices at similar institutions, to allow the endowment committee to make better-informed decisions about the costs of our investments. Despite the existence of Lutheran World Federation Investment Principles, our college does not currently evaluate environmental, social, and governance (ESG) factors in our investment decisions. (Please see the enclosed copy of the Principles for more information.) We believe that in order to achieve our goals of true sustainability and stewardship, “care for all God’s people,” we must amend this practice.

We believe that we share many of the Trustees’ concerns regarding the future of our school. For one, we believe our school must uphold its mission throughout its operations, serving as a model Christian institution for students and the community. We are also concerned with our school’s image nationally, and we believe Luther’s rating of C for investment transparency on the Sustainability Report Card is out of place on an otherwise stellar report. (http://www.greenreportcard.org/report-card-2010/schools/luther-college# ) This raised our concern that Luther is somehow lagging behind other schools, and we sought to investigate.

We quickly found that no policy currently exists to align Luther’s investment strategies and our mission statement, while many schools (thirty-seven in fact), do have such policies. Luther received a C for transparency largely because of the amount invested in mutual funds. Due to our small size, mutual funds are our main option (as opposed to managing direct holdings.) Since the composition of mutual funds changes so rapidly and the trades that the mutual funds make are not always the most transparent, it is impossible to remain invested in mutual funds (necessary to maintain diversity for an endowment of our size) and improve the C grade. The lack of transparency stems from the time lag between the mutual fund actions and when those trades actually become public, as well as Luther’s lack of control over specific trades. We next wondered if certain mutual funds are more transparent than others, but we learned that most mutual funds are not going to disclose their trading information until required, so as to avoid providing information to competitors.

The grade had sparked our interest, but after attending an investment committee meeting it quickly became clear that Luther needed to change, not to receive a better grade, but to become more sustainable. Luther College investments are solely focused on the bottom line. Luther is not willing to invest in a company that promises less than an 8-8.75 percent return, even if that company is a sound investment with positive social returns. Even though seven percent of the endowment is apparently invested in “socially responsible” foundations, the foundations may not actually be living up to their title; instead, they may be practicing
“greenwashing.” For example, one fund invests in logging, oil, and gas yet claims to be environmentally sustainable. If we are going to invest in socially responsible organizations, the hope is that these companies will actually be sustainable and not just claim to be. Though overall profit is arguably the most important, since it does not have a prominent place in Luther College’s mission statement, making money should not be the college’s only consideration. Social, environmental, and governance factors must also play a part in the decision-making process.

We therefore suggest that the committee implement a subcommittee to address ESG (environmental, social, and governance) issues. This subcommittee could be a multi-stakeholder body that includes both faculty and students in order to reduce the amount of work placed on the trustees and administrators. The subcommittee would examine fund broker recommendations and report on the ESG record of the fund. This subcommittee would work with the mutual fund broker researching the mutual funds that he recommends to Luther and then report its findings to the committee. The primary task of this subcommittee would be to work with the investment committee to broaden the understanding of sustainable investment options. Specifically, if a major problem with one of the recommended funds exists, it would be this subcommittee’s job to tell the mutual fund broker of their objections, allowing him time to find an alternate investment. Before any changes to the portfolio occur, the subcommittee would report to the investment committee on the implications of those changes. After working within this model for a year to learn the kind of challenges that arise, the subcommittee would then create investment principles for the investment committee’s approval to then be passed along to any potential brokers or fund managers to be used in determining where Luther invests.

Initially the task of the subcommittee would be more in-depth because our current investments must be investigated. While many other schools maintain advisory committees to evaluate ESG factors, we recognize that establishing a subcommittee to review mutual fund decisions would establish Luther as a leader in implementing mission-aligned investment. This is both an exciting and perhaps daunting prospect, as it will require Luther to remain innovative and flexible in our approach to this challenge. The model we create, however, will not only make our school more sustainable, it will allow us to make better-informed investment decisions without compromising our much-needed returns. The final decision on what investments align with our mission, and how to best steward Luther’s finances, will remain in the hands of the Trustees.

Obviously, the creation of a subcommittee requires a model of some sort. While, as stated above, Luther would be leading the way in this field, Carleton College does have a Responsible Investment Committee with many of the same features. Due to differences in investment practices, our committee would have to focus solely on mutual fund sustainability while Carleton’s committee works with voting by proxy ballots, directly communicating with corporate management, writing shareholder resolutions, divestment, community investment, and investing in socially screened funds. The principle is the same, however—to have a committee that ensures our schools invest in areas that fit our values. Carleton’s committee
meets monthly and reports to the Vice President and the Investment Committee. Their committee is composed of one faculty member, two staff members, and five students, with one administrator and one staff member serving in an ex-officio capacity. Earlham College has a similar committee—the Socially Responsible Investment Advisory Committee—whose design we could also follow. Since we are the first college to recommend this specific subcommittee design, the Responsible Endowment Coalition would be a useful resource. This national organization helps colleges and universities to achieve more sustainable investment practices and could certainly help Luther with this positive step forward.

Unfortunately, due to the way our C grade was derived, a subcommittee would not immediately provide us with a grade improvement. It is not difficult, however, to imagine working with the green report card agency to change the rating system, thus allowing colleges with smaller endowments who want to remain diversified to improve their grades. Furthermore, if students serve on the subcommittee, we will gain points in the evaluation and thus improve our grade. Another step to a more transparent endowment is to disclose which funds we are invested in to those with a university password. This is a common practice and allows for the privacy of the funds while still permitting students and staff to have a greater understanding of the school’s investment practices. Through these and similar actions, we can definitely lead the way toward a more sustainable and responsible future for Luther College, while simultaneously setting a great example for colleges facing similar circumstances.