

Navigating the Investment Portion of STARS v3.0 – The Sustainability Tracking, Assessment & Rating System

| Anne Duggan |

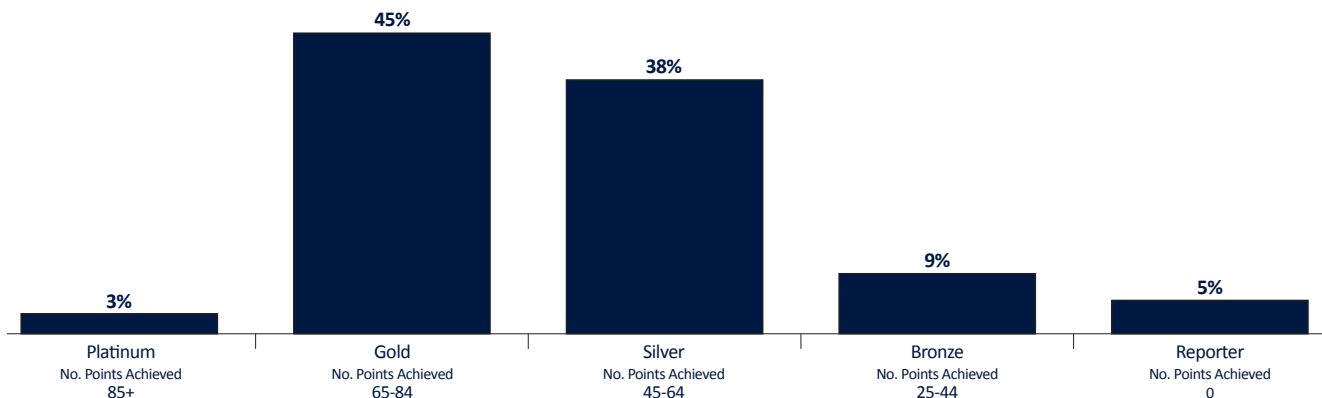
Educational institutions have been working to integrate Responsible Investing or Environmental, Social and Governance (“ESG”) considerations across their organizations, including the investment pool, in response to increased focus on ESG by their stakeholders. To assist in this process, institutions have turned to ESG frameworks that provide both internal evaluations and benchmarking against peers. For the sustainability component of ESG, many educational institutions have turned to the Sustainability Tracking, Assessment & Rating System (“STARS”). AASHE, the Association for the Advancement of Sustainability in Higher Education, created STARS in 2007 in response to calls for a consistent sustainability rating system. This paper will review how STARS works, including changes from the Q2 2024 update, and offer considerations for institutions with respect to the STARS criteria.

What is STARS, and how does it work?

STARS is a transparent, self-reporting framework of criteria designed to evaluate sustainability performance, including with respect to investment pools. It is open worldwide to colleges, universities, and other educational institutions. Its stated purposes are to:

- Provide a framework for understanding sustainability in all sectors of higher education.
- Enable meaningful sustainability comparisons over time and across institutions using a common set of measurements.
- Create incentives for continual improvement toward sustainability.
- Facilitate information sharing about higher education sustainability practices and performance.
- Build a stronger, more diverse campus sustainability community.

Exhibit 1: STARS Rating Levels & Distribution of Achieved Levels



Source: STARS. As of February 13, 2024, total 349 institutions

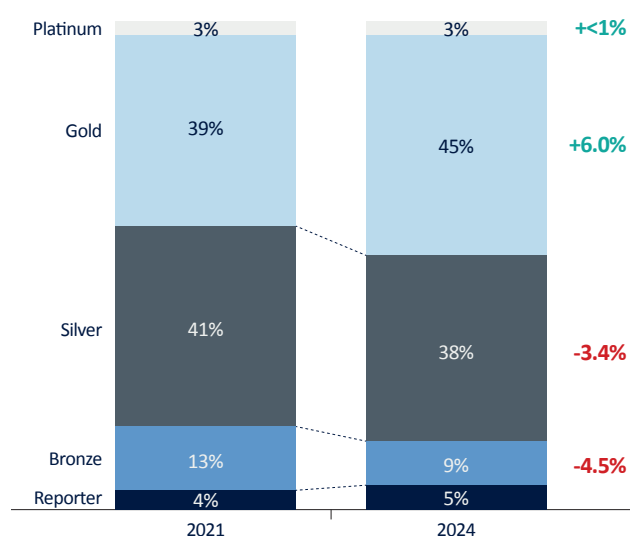
Note: Reporter is an institution that has uploaded its information but is not scored or is below Bronze.

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Rankings for the approximately 350 institutions that were ranked in early 2024 were significantly better than the rankings for approximately the same number of institutions ranked in early 2021. As of early 2024, almost 49% of institutions were ranked Gold or Platinum compared to 42% three years ago.

Exhibit 2: STARS Achieved Rating Distribution – 2021 vs. 2024



Source: STARS. As of March 17, 2021 (total 359) and February 13, 2024 (total 349)

How is the Investment Portion Ranked in the STARS Criteria?

The investment portion represents 4% of all available points, or 7-10 points based on investment pool size, and is part of the Planning and Administration section. STARS Technical Manual 3.0 notes points for the investment criteria “seek to recognize institutions whose investment decisions promote sustainability”. In addition, STARS notes explicitly that “institutions with transparent and democratic investment processes promote accountability and engagement by the campus and community.” These objectives of transparency and inclusivity are important components of the points for this category. *The detailed criteria and potential point allocations are included as Exhibit A.*

The endowment is covered by two categories, which offer a potential 7-10 points, depending on the endowment size, for achieving various criteria.

Exhibit 3: Investment Criteria and Potential Points for v3.0

Category	Description	Potential Points by Investment Pool Size	
		<\$1B	\$1B+
PA-4: Sustainable Investment Program	4.1 Sustainable investment policy or committee	2	2
	4.2 Negative screening and divestment	1	1
	4.3 Investor engagement	1	1
	PA-4 Total: Recognizes programs with processes in place to ensure sustainable investing and those who participate in investor engagement	4	4
PA-5: Investment Disclosure	5.1 Investment holdings disclosure	1	2
	5.2 Percentage of the investment pool allocated to positive sustainability investments	2	4
	PA-5 Total: Recognizes programs who participate in transparency and allocate investment dollars to sustainable investments	3	6
Total Points Available Related to the Investment Pool by Pool Size		7	10

Source: STARS Technical Manual 3.0. A detailed description of the criteria is included as Appendix A.

Considerations in Responding to STARS Investment Categories

STARS can help drive robust Investment Committee values and goals discussions but should not define them prescriptively:

Although your institution may have a rating goal (e.g., Gold), STARS should not prescriptively determine the sustainability strategy for your investment pool. Instead, the STARS criteria should be among the Investment Committee's many considerations in determining its sustainability policy. STARS criteria reward certain approaches to ESG, which may or may not reflect your institution's values. Examples include:

- **PA-4.3C rewards one-third of a point for being an active participant of sustainable networks.** Partners Capital is a strong believer in engagement as part of its sustainability approach and is a signatory of the United Nations-supported Principles for Responsible Investment (PRI) and a member of The Institutional Investors Group on Climate Change (IIGCC), although active participation may come a long with significant reporting requirements which may not be right for every institution.
- **PA-4.2 awards one point for employing negative screens,** meaning the investment pool must use a rules-based exclusion for companies the operations of which are deemed unsustainable from ESG perspective, such as fossil fuel. Some schools are comfortable ruling out certain categories of companies. Partners Capital believes negative screens may not be the right approach for everyone. As an overarching principle, when integrating sustainability risks into our investment decision making, Partners Capital prefers engagement over exclusionary investment approaches. We believe that investors can have a greater impact on management behavior through active engagement and exercising voting rights. However, Partners Capital does deploy a select few firm-wide exclusions where there is little scope for improving their ESG profile in the years ahead and have limited scope for contributing to a more sustainable world, unlike some oil and gas producers who may have the potential to contribute meaningfully to the transition to a low carbon economy.

- **PA-5.2 offers up to 2 or 4 points, based on pool size, for percent of the pool invested in STARS approved sustainable investment categories,** such as community development financial institutions or funds that are explicitly focused on sustainability or ESG. An institution would not want to change its investment allocations solely to gain STARS points. These types of investments should come naturally out of broader discussions on the investment policy statement, objectives and defining success for the investment pool.

How much disclosure do you want: Everything provided in the STARS online reporting tool is available to anyone online. To earn points and in alignment with the goal of STARS, public disclosure of certain investment pool information is required. Full compliance results in full transparency of the investment pool on a range of topics including portfolio holdings, sustainable holdings percentage, sustainable investment policy, and proxy voting record. Many, if not all, of these items may not have been previously publicly available. Once available, the institution needs to be prepared to engage in discussion with and answer questions from stakeholders. For public institutions, the Freedom of Information Act or governmental policy may have already resulted in this disclosure. For private schools, disclosure of this information is an active choice to be made—whether to disclose, how much to disclose and in what manner should the disclosure be made. In addition to a decision on disclosure, some institutions are facing challenges in obtaining the relevant data required to submit, such as proxy voting records, which unless an institution invests in direct equities, third-party managers may not provide.

Tread carefully with confidential information:

An important consideration in the disclosure discussion is confidentiality. There may be confidential information, either in the form of internal proprietary strategies employed or third-party manager allocations. Ensure disclosure of internally managed capital is appropriate and valued by the institution given potential trade-offs (e.g., proprietary investments or strategy). The information you plan to disclose to STARS should be approved by your managers to ensure nothing you provide in your STARS submission is confidential, or worse, material non-public information (MNPI).

Be realistic as to how much time and effort goes into meeting the criteria: Be clear on what will be required to meet various criteria and whether the time and effort are worth it or even feasible for your institution. While all categories require time and effort to fulfil, some may be more difficult to achieve.

- **PA-4 rewards one point for investor engagement.** This requires an active proxy voting record, signing shareholder resolutions, and being a participant in sustainable investor networks. While Partners Capital fully believes in an engaged approach to investing, time, expertise and/or constraints may practically limit many institutions from partially or fully implementing these types of efforts. Engagement is time-consuming and requires expertise to enable progress and results.

How did STARS change in 2024 with v3.0?

STARS made sweeping changes with new version 3.0, to be implemented in Q2 2024, which updated the prior version 2.2 (implemented in 2019).¹ While the overall points available for the investment category increased, it continues to account for up to 4.0% of the overall score, the same weight as before.² Most of the content of the investment category remains the same with key focus areas reframed and scoring meaningfully simplified. In addition, two prior categories, proxy voting and proxy policy, were consolidated into one category, while divestment became its own category. The only new content inclusion was within acceptable types of sustainable investments that can count under PA5.2, which now includes “Place-based investments that target positive social and environmental impacts in economically divested areas.” Most significantly, sub-categories were rescored, providing new weight to what STARS currently views as important.

Broadly, STARS is placing more importance on sustainable outcomes (more emphasis on divestment, improved transparency, and allocations to sustainable investment) into the investment

pool, while reducing importance on more policy, governance, and industry participation. These new focuses mirror what is occurring in the sustainable investing industry at large. Policy and governance activities such as having a sustainable policy or a dedication to discussing sustainability through an Investment Committee are now viewed “table stakes,” or minimum acceptable activities, to be viewed as participating in the sustainable conversation. Now the industry is focused on action and accountability (via transparency), highlighted by an increased focus on moving dollars in the investment pool or sharing information broadly. This holds true for both asset owners and asset managers.

These goals of incentivizing action and transparency while deemphasizing policy align with where institutions received points in the past. Historically, per a conversation with STARS, institutions pursuing STARS Investment points almost always (90%+) received points in the sustainable committee category. However, that dropped significantly for sustainable investments, where only half of institutions received points, and even further to only one-fifth of institutions receiving points for transparency.

The new scoring emphasized key areas of focus for STARS:

1. Dollars Allocated to Sustainable

Investments (+9% weight): The new scoring made dollars allocated to companies in specific sustainable industries the largest category for potential score in the investment pool, while making it more difficult to achieve. This is a trend Partners Capital sees broadly in the industry, a focus on investments with positive sustainable outcomes. It is now a standalone category with four points for \$1B+ investment pools (two points for smaller investment pools), and the points are earned only for investment in the specified industries. Previously, dollars allocated to sustainable investments and investor engagement were a combined category, allowing participants to achieve points in an “either/or” manner. To achieve all available points in this category, an

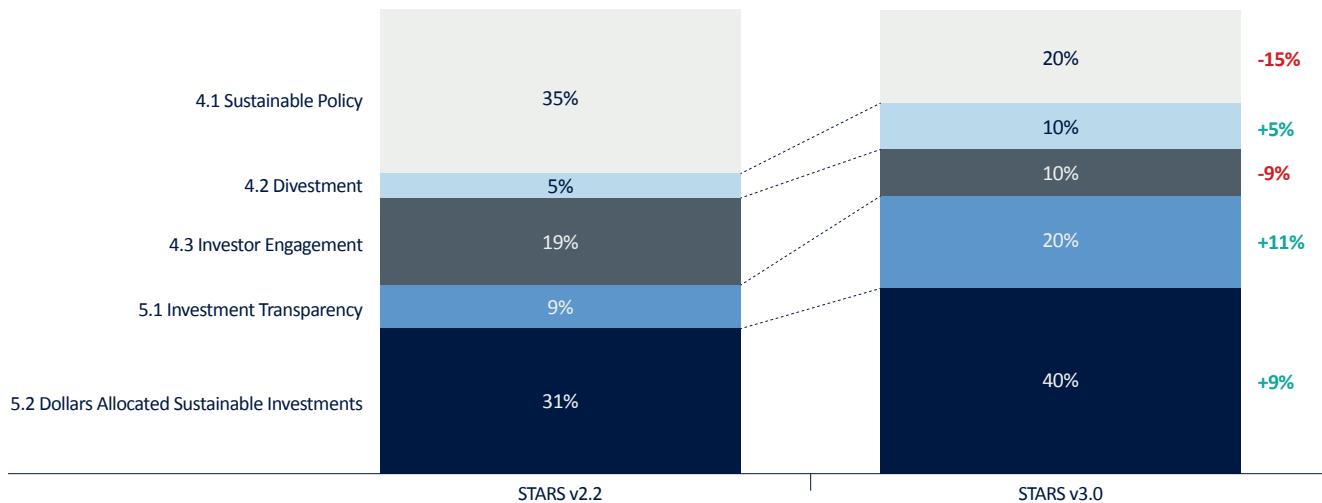
¹ “Get Ready for STARS 3.0.” April 8, 2024, <https://stars.aashe.org/news/get-ready-for-stars-3-0/>

² “STARS 3.0 Point Allocation.” April 8, 2024, <https://stars.aashe.org/wp-content/uploads/2024/01/STARS-3.0-Point-Allocation.pdf>

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Exhibit 4: STARS Investment Point Weighting Changes for \$1B+ Investment Pool – v2.2 vs. v3.0



Source: STARS Technical Manual 2.2, STARS Technical Manual 3.0

Note: Partners Capital created this comparison by allocating the points in v2.2 into the new framework of v3.0. Certain assumptions were made about point allocation. Assumes a \$1B+ portfolio received 2.5 points for sustainable investments and 2.5 points for investor engagement under v2.2 PA10.

investment pool now needs 100% invested in sustainable investments. In the previous version, it was 60% or 30%, plus investor engagement activities. This means the value per 1% allocated has been reduced by 55% from 0.09 points to 0.04 points (for \$1B+). Partial points in this category are now awarded based on the actual percentage of the investment pool invested in the specified sustainable industries.

2. Transparency of Investment Holdings

(+11%): STARS is seeking publicly available detailed balance sheets of investment holdings for full points, but now gives partial credit for sharing some information online (e.g., investment names with no allocation percentages). Previously, points were only awarded for specific investment holdings and allocations being released together.

3. Divestment (+5%): While point allocation for Divestment increased only 5%, it is now a standalone category, reflecting STARS' desire to highlight the importance of divestment in their opinion. As an overarching principle, when integrating sustainability risks into our investment decision making, Partners Capital prefers engagement over exclusionary investment approaches.

4. Sustainability Policy (formerly

Sustainable Committee) (-15%): STARS had previously given substantial weight to having a Sustainable Committee, separate from the Investment Committee, with representation from students and faculty. This requirement has now been removed as a standalone sub-category. This change highlights an evolution in the industry that is moving importance away from what are now considered as “table stakes” (or minimum acceptable) activities like having a policy and discussion towards action, such as making investments focused on sustainable impact. Now, a published policy or directive and/or a committee on investor responsibility to consider ESG factors and/or climate risks material issues in investment decisions will suffice.

5. Investor Engagement (-9%): The value of proxy voting and providing proxy records decreased.

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Appendix A:

PA-4: Sustainable Investment Program

4.1 Sustainable investment policy or committee	
Maximum Points Available:	2 (all investment pool sizes)
Summary Overview	Breakdown of Points
<ul style="list-style-type: none"> The Institution has a formally incorporated environmental, social, and governance (ESG) factors and/or climate risk as material issues to be considered when making investment decisions, as evidenced by a published policy or directive and/or a committee on investor responsibility (CIR). Report on current sustainable investment policies and directives and/or currently active committees. 	2 (no partial credit)
4.2 Negative screening and divestment	
Maximum Points Available:	1 (all investment pool sizes)
Summary Overview	Breakdown of Points
<ul style="list-style-type: none"> The Institution must employ negative screening and/or targeted divestment in support of sustainability, as evidenced by a published policy or directive or a public commitment. Report on current policies and directives and/or public commitments made by the institution. 	1 (no partial credit)
4.3 Investor engagement	
Maximum Points Available:	1 (all investment pool sizes)
Summary Overview	Breakdown of Points
<p>A. Proxy Voting: Institution has engaged in proxy voting in support of sustainability during the previous three years, either directly or through an investment manager.</p> <ul style="list-style-type: none"> Narrative or support of proxy in support of sustainable investing. 	0.33
<p>B. Shareholder Resolutions: Institution has filed a shareholder resolution or signed on to an investor statement in support of sustainability during the previous three years, either directly or through an investment manager.</p> <ul style="list-style-type: none"> Narrative or support of resolutions or statements in support of sustainability. 	0.33
<p>C. Active Network Participant: Institution is an active participant in one or more sustainability or ESG-focused investor networks.</p> <ul style="list-style-type: none"> Examples: Global Investor Coalition on Climate Change (GIC), Intentional Endowments Network (IEN), Interfaith Center on Corporate Responsibility, Ceres Investor Network on Climate Risk and Sustainability, or Principles for Responsible Investment (PRI). Active participation may be indicated by current membership, service on an advisory or governance committee, support for network initiatives, and/or sharing case studies. 	0.33

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PA-5: Investment Disclosure

5.1 Investment holdings disclosure		
Maximum Points Available:	Investment Pool Size	
	<\$1B	\$1B+
	1	2
Summary Overview	Breakdown of Points	
A. Holdings Snapshot – names only: Institution has published a snapshot of the holdings in its investment pool within the previous three years. <ul style="list-style-type: none"> • Must be online. 	0.33	0.66
B. Holdings Snapshot with allocation detail: The snapshot details the amount or percentage allocated to specific funds, companies, and institutions. <ul style="list-style-type: none"> A. <i>Must be online</i> B. <i>Must include performance for the year</i> C. <i>Asset allocation level detail does not qualify; must include fund, company etc. level information</i> 	0.33	0.66
C. Combined Institution View: The snapshot is inclusive of the combined activities of the institution and other entities that manage investments on its behalf, such as a contracted management company, university system, and/or foundation.	0.33	0.66

5.2 Percentage of the investment pool allocated to positive sustainability investments		
Maximum Points Available:	Investment Pool Size	
	<\$1B	\$1B+
	4	2
Maximum points are earned when 100% of the investment pool is allocated to one of the following areas. <i>Partial credit calculated as % of total investment pool in the following areas x points available</i>		
<ul style="list-style-type: none"> A. Funds that are explicitly focused on sustainability or ESG B. Sustainability-focused industries or sectors (e.g., renewable energy production) C. Businesses selected for exemplary sustainability performance using positive screens D. Community development financial institutions (CDFIs) E. Place-based investments that target positive social and environmental impacts in economically divested areas F. Green revolving funds seeded from the investment pool <ul style="list-style-type: none"> • <i>Investments may be placed in only one category (no double counting)</i> 		

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