

USC Finance, Budget, and Benefits Committee

January 13, 2021

10:00 a.m.

Meeting with Vice President Ghosh

videoconference

Present: Roy Campbell, Larry Danziger, Mitra Dutta, Danilo Erricolo, Avijit Ghosh, Cecil Hunt

VP Ghosh – There are both University investments, and Foundation investments. University\* investments follow strategic plan and mission including sustainability, sensing, societal concerns, diversity, and climate. The University looked into options of how to do this without specific divestment in companies or sectors. BlackRock offered a partnership that is not based on specific divestment but did offer a way to place investments preferentially in area like sustainability and included a lot of different options. Divestment in companies in specific countries is a big issue right now – but this raises issues and the politics that could be problematic because of divisiveness. On other hand, the university wants to focus on sustainable investing to direct investments into ones with positive attributes in a planned manner. The university went with BlackRock ESG (Environmental, Social, Governance.) The ESG approach is to assign certain weights to investment not based just on financial values but, depending on criteria based on the company derived from its impact on environmental, social, and governance values (over and under a financial evaluation.) BlackRock is one of the largest money managers and works with many other large financial corporations like Vanguard.

The University began working with them starting two years ago. It talked about designing an investment program with BlackRock to meet some of our University goals. BlackRock has captured much data from companies including environment, green house admission, sustainability, water use, social factors, work force diversification – gender and diversity – level of management and board transparency. BlackRock has put together a whole department that collects this kind of data and generates a set of weights for each company based on the data and divided into criteria reflecting specific concerns. The focus of its investments is based on its emphasis of the weights. For example, companies with good scores on environmental issues can be preferred, all other issues equal. The fund started with 3000 stocks (Russell 3000 index) that have been evaluated. Investing is based on the raw weights and allocations are now chosen through the weights. Out of 3000 ESG evaluated stocks, ESG only invests in about 700 stocks that are high in the measures. Companies which weigh low in environmental measures are not part of the investment program or are of a lower level of investment. BlackRock puts pressure on boards and companies to make sure they rank high on the ESG factors. The

University went with this approach because: ESG captures many of the University's goals and priorities, the University avoids the difficulty of not directly divesting in specific companies, ESG encourages all the companies it invests in to improve their sustainability weightings, and ESG has volunteered to possibly accommodate input from its investors on the factors and weights. BlackRock designed this for, effectively, the University. Now, we are the first of BlackRock ESG investors at around \$160M. The intent is for BlackRock to open up the fund to other universities. Because it was first designed for the University, the cost and fees are low for the University and will always be lower than anyone else that joins the ESG fund.

Started First of May with BlackRock. Turned 34% increase in value of funds until end of year although that level of growth is probably not sustainable. As a University, we don't choose active investment strategies to avoid controversies. Active investment strategies have been shown not to be better than passive policies by many investment companies because of costs, management fees, and the randomness of the marketplace. In the past 5-10 years, the University has always employed passive investment. The University is interested in the whole market for safety, but tries to diversify to get above average returns. The University also has a lot of fixed income. About 20% of endowment is in private equity or hedge funds that are not correlated with stock market. Again, this is always passive.

(Larry Danziger) Over past ten years how has the investment succeeded? VP Ghosh - 8.7%. With respect to NACUBO peers, we are in the top %.

(Danilo Erricolo) Can we go to and cherry pick companies? VP Ghosh – We accept their weighting methodology. (Danilo Erricolo) Concerning the principles of investments. If someone yells loud enough – do not want university to invest in (X), then someone else (Y). VP Ghosh – Yes, that is why we do not agree to individual investments. BlackRock encourages companies to do the right thing.

(Roy Campbell) Are the weights published? VP Ghosh – No, not weights. Criteria is published.

(Roy Campbell) What is the favored way the University reports how BlackRock aligns with our interests. VP Ghosh – 15 criteria. Will see about sharing with you. (Roy Campbell) Sharable with the University? VP Ghosh – Will have to find out with BlackRock. They want to protect. Will see how much more detail we can get. (Roy Campbell) How do you evaluate this over time? VP Ghosh – 1) how are they doing comparatively to other funds and investments 2) having desire impact on factors. We do talk with them about it. They give examples. Can share that, out of all of 3000 funds in stock and measure, everyone's greenhouse gas emission is only 27% of average greenhouse admissions. Recycling is part of. Of all banks, PNC has highest weight. Gender diversity.

(Cecil Hunt) Does BlackRock ESG include divestment in private prison stocks? VP Ghosh – Do not know. Planned to have a forum with BlackRock – invite members of the senate; because of COVID, did not happen. The person who worked with us creating this fund has now joined the

Biden administration as an economic advisor. There is still intent to have a forum. Will be with someone else from BlackRock.

(Roy Campbell) Ongoing cost of COVID. VP Ghosh – Costs us dearly. We can break into two parts 1) spring semester that concluded June 30. Three types of costs a) refunds we have given to students – auxiliaries mostly – housing, dining, b) additional cost for protecting – PPE, ventilation/circulation reconfigurations, c) lost revenue – things we cannot do. Biggest loss is medical services in Chicago. Clinics closed down. Essential services only. 2) Starting in Fall, cost of testing, which is now one of biggest expenses. Three universities – \$44M, for fall. Probably similar amount in this spring. Other aspect, if talking express number of testing, refunds, other costs, estimate \$150M for this FY. Mostly Urbana. Concerning Intercollegiate athletics, still broadcasting and playing, but no attendance. Treated completely separate. A lot of cost reduction.

Stimulus funding, we received first round. Second round is about \$93M. About half has to be spent on providing student financial aid. Half can be used to defray expenses and lost revenue. Not used for athletics. State will receive some money, so we will receive some from state for COVID testing and vaccinations. So far, not clear whether there will be costs for vaccinations. Maybe infrastructure costs.

(Larry Danziger) We are running out of people who can vaccinate people. VP Ghosh – Have not talked about Hospital. A lot of implications. Treating, now vaccinations. Temporary nursing cost shot up. About to hire some temporary nursing from staffing company.

(Mitra Dutta) How fast can we train students to give shots? VP Ghosh – Pharmacy and Nursing students. (Larry Danziger) Takes a couple of weeks – takes faculty to train, and training must include training in life support. Busy training as many people as we can. Don't have enough faculty to supervise everybody. VP Ghosh – Nationwide problem. We were very concerned how we would end up in FY2020 – unexpected costs. Came out ok. Feel confident we will come out ok. A lot of universities, even some private, have announced deficits. We have not done that, or laid off people, no furloughs.

(Roy Campbell) Pension System. VP Ghosh – Fear not so much university finances as an issue, but state has really big troubles. Big deficits. Because of COVID, added to problem. Think everyone is counting on a stimulus from federal. Recent bill, would have provided \$500,000-1M to state, did not pass. Fear is what state appropriation will be like starting July 2021. This year, the state did claw back money from agencies, but not from universities. No plans to do so. Governor's Office is very supportive of higher education, compared to some previous administrations. Other thing we hope will happen, talk about new stimulus bill with Biden administration, mostly focused on state and local government. Keep hearing with Biden transition this may happen. Bill also talks about allocation for K-12, which would really help state. Think we will be in a bit of uncertainty with state budget. Do not think there will be changes in pension system. Trying to push for a university-based supplemental program.

COVID stopped those discussions. If start talking about again, we would want help from you people to articulate why we need this. Now, nobody ready to think about that kind of investment until COVID situation calms down. (Roy Campbell) Might Biden admin introduce something to help with pensions? VP Ghosh – Have not heard.

(Mitra Dutta) Self-managed plan changes. On face value, seems ok. But seems investment choices are limited. VP Ghosh – SURS communication on that was very poor. Even (VP Ghosh) did not fully understand what they were doing. SURS requires that when you retire, take all funds and invest in SURS. A lot of people are demanding that this be changed. 50% of funds SURS, other 50% stay in market. SURS created a new vehicle, money manager, not well communicated. Investment choices not well communicated. New director has good intent. They are trying to do other 403B programs. We have been arguing that this does not help. University already has self- managed. Introducing another does not help. Big challenge with faculty, a lot are close to retirement, seems like we have to take on more of a burden of communicating with faculty, where SURS used to do. Not doing so well now.

Post COVID. One aspect of financial sustainability, what happens to international enrollment – there was a big fear that international student enrollment would drop. Hopefully Visa issues will be taken care of with Biden administration. Most universities, especially Urbana, big component of financial picture. So far for Urbana, small numbers in Chicago, international students have registered. There have also been drops in the freshman class.

Believe, although not proven, public universities like ours are actually going to be ok. Might be tendency for students to stay closer to home. Smaller universities are in a difficult situation. One big difference is in the way we approached COVID. They cannot afford what we have done. The Chancellor of the CA state system decided early not to open, went remote. Reason cited was that they could not afford to do the testing.

(Larry Danziger) When will we get FDA approval for SHIELD? Will the system be able to make some money? VP Ghosh – Seems closer every day. People are working very hard. Submitted, asked for follow-up. We have made investments in trying to help other universities.

(Roy Campbell) Thanks to Avijit Ghosh, he has done an outstanding job of keeping us afloat. Responded very well to our worries and questions. VP Ghosh – Goal is not to let other people worry. Let me do burden of worrying.

(Roy Campbell) We should keep some items on the agenda, certainly investment and pension concerns, and keep asking questions and advocating with university administration to take steps in appropriate direction. VP Ghosh – Happy to work with you.

10:57am

(FBBC continued discussion after VP Ghosh left.)

(Cecil Hunt) Private prisons. Very big deal. Columbia, about to disinvest in private prison stocks. (Roy Campbell) We should look into the University moving away from private prison funding, and whether this is a BlackRock ESG criteria. Help in developing criteria in future.

(Cecil Hunt) There is the presumption that many large companies invest in private prisons. Stocks in private equity funds, hedge, retirement, great returns on private prisons. Towards end of Obama administration, divested in private prisons. Toward beginning of Trump administration, increased government investment in private prisons. Big business. Affects brown and black people in an unproportionate way. Universities leading the way, primarily Columbia, to divest from prisons and companies invested in private prisons. (Roy Campbell) Maybe we can get Columbia list. Compare with BlackRock. (Mitra Dutta) There is a book by Shane Bauer on this that could be useful. Will send link. (Roy Campbell) Put topic on agenda. (Cecil Hunt) Reach out to VP Ghosh, get information. There has been a strategy in some areas to get people of color out of the business of voting. They are charged with a felony. Banned, sometimes for life, from voting.

11:10 a.m.