



Restrict Direct Fossil Fuel Investments in Cash Management Holdings

SUSTAINABILITY COMMITMENT(S) THIS INITIATIVE SUPPORTS

- **8 – Responsible Investments**

INITIATIVE ALIGNMENT WITH THE CHARGE

- **Eliminate Emissions:** This initiative aligns with The Charge as it will integrate sustainability and climate resiliency as shared principles across research, teaching, and operations. The University of Arizona will make iterative investments ensuring continuous evaluation, learning, and adjustments to foster our commitment to sustainability and climate action goals. By restricting direct fossil fuel investments, the university will further the goals of The Charge.
- **Be Actionable:** This initiative aligns with The Charge as it will integrate sustainability and climate resiliency as shared principles across research, teaching, and operations. The university will make iterative investments ensuring continuous evaluation, learning, and adjustments to foster our commitment to sustainability and climate action goals.
- **Be Data Informed:** This initiative aligns with The Charge as it will integrate sustainability and climate resiliency as shared principles across research, teaching, and operations. The university will make iterative investments ensuring continuous evaluation, learning, and adjustments to foster our commitment to sustainability and climate action goals.
- **Inspire Adaptive Management:** This initiative aligns with The Charge as it will integrate sustainability and climate resiliency as shared principles across research, teaching, and operations. The University of Arizona will make iterative investments ensuring continuous evaluation, learning, and adjustments to foster our commitment to sustainability and climate action goals.

INITIATIVE DETAILS

Initiative Summary

This initiative proposes to transition the University of Arizona's investments away from fossil fuels and toward climate-conscious practices, with a goal to eliminate direct fossil fuel investments by 2030 or sooner. Recognizing the importance of climate metrics and governance in sustainable investing, the university aims to implement policies that measure, reduce, and disclose these emissions to align with its commitment to environmental stewardship and transparency. Collaborating with the University of Arizona Foundation, this initiative seeks to establish robust ESG (environmental, social, and governance) procedures that guide investment strategies toward sustainable and socially responsible outcomes. Actionable items include:

- Establish a timeline to eliminate direct fossil fuel investments from the university's cash management holdings by 2030 or sooner.
- Use established metrics to quantify and report on emissions from investments.
- Conduct a quarterly assessment of ESG rankings within the investment portfolio using reputable rating systems.
- Collaborate with the University of Arizona Foundation to align investment strategies with university-wide goals and policies.

Proposed Initiative & Background

To reduce the University of Arizona's scope 3 emissions, the University of Arizona must measure, create policies to eliminate, and continue to enforce policies on investment-related emissions.

Investment emissions are the scope 1, 2, and 3 emissions of the companies that an entity makes loans to, invests in, or insures, which become our scope 3 emissions. This entity bears a share of responsibility and risk for those emissions based on its investment in a company. A bank that owns 30 percent of Company A, for example, should include 30 percent of Company A's total emissions in the bank's scope 3 emissions. Thus, as the scope 1 and scope 2 emissions from companies we are invested in become the scope 3 emissions of the university, reduction, and monitoring of these companies' climate metrics are essential for reducing our own emissions. Moreover, while consideration of climate metrics is integral to becoming a sustainable and socially responsible investor, consideration of social and governance factors is as well. (<https://www.ucop.edu/investment-office/sustainable-investment/climate-change/the-carbon-footprint-of-the-uc-public-equities-holdings.html>)

The following initiatives outline policies as to when fossil fuel investments will be eliminated from the portfolio, what metrics are used for fossil fuel investments, how environmental, social, and governance (ESG) procedures will be updated for university investments, and how the university will guide the University of Arizona Foundation to align ESG procedures.

Today, hundreds of universities around the world have committed to aligning their portfolios with international goals for climate change mitigation and adaptation as well as the United Nations' Sustainable Development Goals. Looking at the investment guidelines of the university's peer institutions that have made such commitments like the University of California system, Brown University, the University of Illinois Urbana-Champaign, and Duke University, we find that they have committed to the complete elimination of fossil fuel companies from their investment portfolios between 2020 and 2030. Moreover, peer institutions like the University of California system and Arizona State University have also committed to measuring the greenhouse gas emissions of companies invested in and publishing these measurements for community stakeholders to see. Even beyond specifically targeting investment emissions, all the aforementioned universities and more have created ESG investment criteria that clearly outline their goals for each ESG category and other justice, equity, diversity, and inclusion initiatives.

1. The university commits to eliminating direct fossil fuel investments for its cash management holdings by 2030.

2. Current positions of fossil fuel investments will mature out of the current portfolio.
3. Using established and reputable metrics, such as current Morgan Stanley Capital International (MSCI) climate data metrics and other future leading climate metrics systems, for measuring fossil fuel emissions of investments, focused primarily on scope 1 emissions of companies we are invested in, the university commits to a quantitative assessment of investment emissions impact within the cash management portfolio.
4. The university will commit to quantifying and assessing ESG rankings of holdings within the investment and cash management portfolio quarterly.
 - a. The university will use current leading ESG rating systems that pay particular focus to equity, justice, diversity, and inclusion initiatives such as the MSCI ESG rating system.
5. The university will utilize the above initiatives to update its investment policies with a set of detailed environmental, social, and governance (ESG) procedures that will guide the investment and cash management strategies in a manner that prioritizes equitable environmental stewardship, particularly the reduction of carbon emissions from investments.
6. The university encourages and will assist the University of Arizona Foundation to update its policy to be consistent with University ESG investment procedures.
 - a. Meet with the University Investment Committee in FY2025 to determine if recommended procedures are consistent with ABOR and State policy.

This initiative currently faces a couple of identifiable challenges, mainly regarding funding. However, beyond that, the current management team of University of Arizona investments, the University of Arizona Treasury, and Vice President Steve Kelly, have co-authored these initiatives to create 2030 fossil fuel emission reduction guidelines for University of Arizona investments, inclusive of emission transparency on university websites.

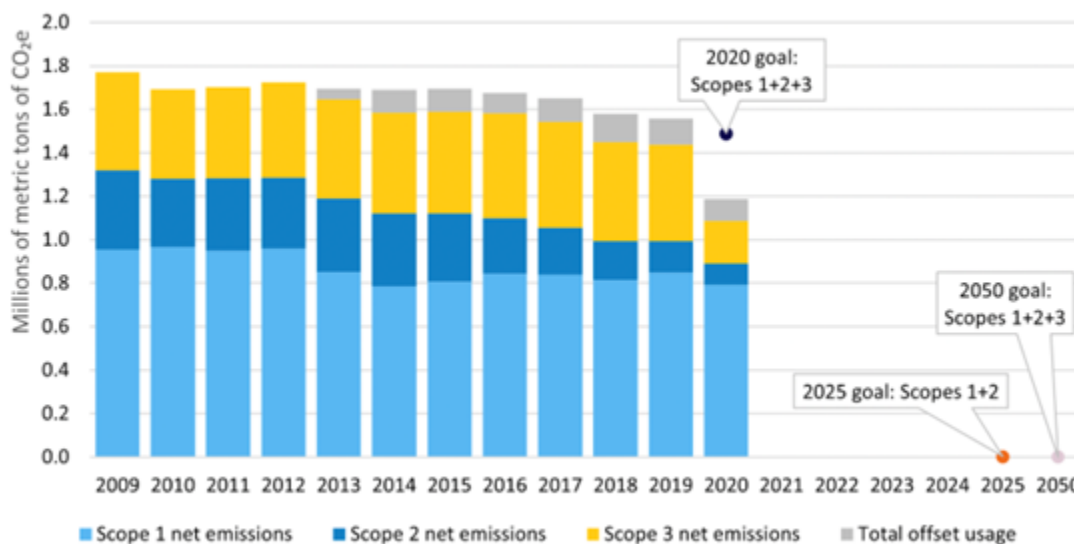
Data Analyses to Support Initiative

According to the EPA, “scope 3 emissions are the result of activities from assets not owned or controlled by the reporting organization, but that the organization indirectly affects in its value chain” inclusive of an organization’s investments. Currently, the university definition of scope 3 emissions is unaligned with the EPA’s, leaving out any mention of investments on [its website \(https://sustainability.arizona.edu/projects/sustainability-climate-action-plan/climate-neutrality\)](https://sustainability.arizona.edu/projects/sustainability-climate-action-plan/climate-neutrality) or in its emission calculations (https://sustainability.arizona.edu/sites/default/files/2021-01/UAZ%20FY19%20Executive%20Summary_Final.pdf) despite having matching definitions for both scope 1 and scope 2 emissions with the EPA. This leaves the university in a disadvantaged position for meeting emissions reduction goals when considering that scope 3 emissions typically encompass the “largest category of emissions” (<https://www.americanprogress.org/article/why-companies-should-be-required-to-disclose-their-scope-3-emissions/>) in the value chain for companies. Moreover, within companies, it has been found that “scope 3 emissions account for about 88 percent of total emissions from the oil and gas sector”. Yet, these numbers only address the impact of scope 3 emissions for

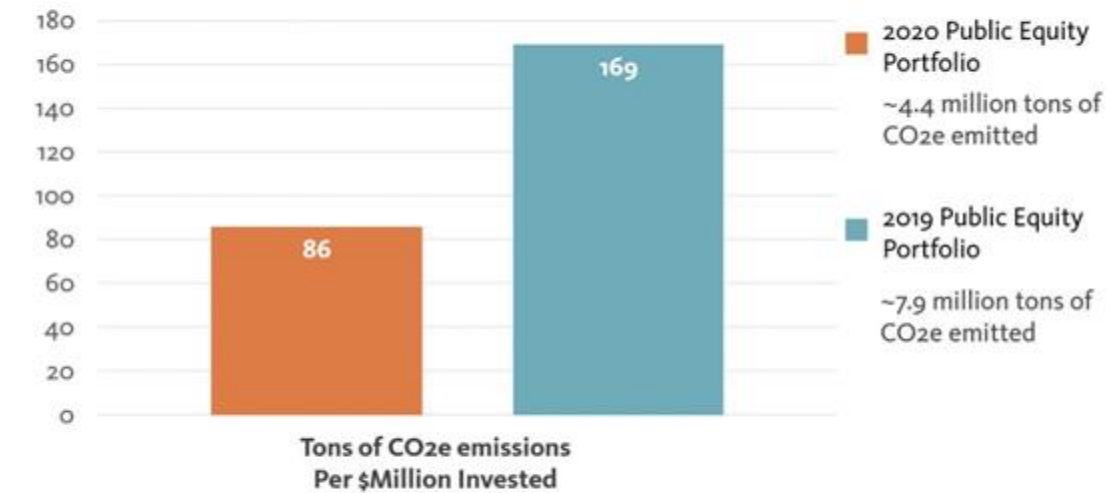
companies. The outsized weight that scope 3 emissions carry, specifically investment emissions, can be seen in the analysis of university scope emissions as well.

Looking over university scope calculations of the University of California, we can see that investment emissions do not just make up the largest category of carbon emissions but dwarf all other emissions combined. As demonstrated in the UC system's sustainability report (<https://link.ucop.edu/2020/03/02/2019-uc-sustainability-report-carbon-emissions-down-growth-up/>) the UC system as a whole emitted over 1.5 million metric tons of CO₂e in 2019, inclusive of scope 1, 2, and 3 emissions. However, this total of 1.5 million metric tons, shown in the graphic below, leaves out investment emissions in its calculation. Instead, in the same report, they state elsewhere that 7.1 million metric tons of CO₂e were released from the investments in 2018 which then increased to around 7.9 million metric tons of CO₂e in 2019. Yet, in 2020, these investment emissions significantly dropped by over 3.4 million tons of CO₂e with [the sale of around \\$1 billion in fossil fuel investments from 2019 to 2020](https://www.universityofcalifornia.edu/press-room/ucs-investment-portfolios-fossil-free-clean-energy-investments-top-1-billion) (<https://www.universityofcalifornia.edu/press-room/ucs-investment-portfolios-fossil-free-clean-energy-investments-top-1-billion>). This suggests nearly half of the CO₂e in 2019 was from their fossil fuels investments. Thereby, the CO₂e per \$1 million for fossil fuel investments alone was in the thousands of tons compared to 153.6 tons of CO₂e per \$1 million of all investments combined in 2018. Thus, before the divestment of fossil fuels, investment emissions made up over 5 times the amount of all other emissions for the UC system. Investment emissions then decreased to 2.7 times the amount of all other emissions after divestment.

12.3.1 Greenhouse gas emissions compared to climate goals, Universitywide, 2009–2025



Carbon Emissions Footprint: Emissions Rate & Absolute Emissions



Based on 2020 portfolio investment of \$51 billion and 2019 portfolio investment of \$47 billion
Source: MSCI

Canada University, stated that in 2015, before sustainable investing requirements, Western Canada University emitted 193 tons per \$1 million invested in their public equity holdings which then decreased to 63 tons per \$1 million in 2020 (<https://news.westernu.ca/2021/11/responsible-investing-contributes-to-significant-carbon-footprint-reduction/>). This demonstrates the positive emission reduction effect of monitoring investment emissions and instilling sustainable investment practices.

Considering the growing investment portfolios of the University of Arizona, investment emissions will make up an increasingly large portion of scope 3 emissions. However, looking at the vast decline in investment emissions with aforementioned investment practices of the universities above, our recommended steps to monitor and reduce these emissions will prevent this problem, thereby allowing us to continue increasing our portfolio size while decreasing our scope 3 emissions.

Shifting focus to the areas of social and governance standards, we are recommending addressing the areas of inequality, diversity, ethics, and governance, by consistently quantifying and assessing ESG rankings of holdings within the investment and cash management portfolio quarterly (see also <https://www.ucop.edu/investment-office/sustainable-investment/sustainability-framework/index.html>). Current university ESG investment policy simply asks to invest in companies that comply with “all applicable laws and regulations” and that “all constituents and related parties who are affected by the Foundation’s activities are treated fairly and without prejudice to gender, race, ethnic or national origin, socioeconomic status, age, religion or disability”. We are attempting to go beyond that, by not just investing in companies without prejudice but also investing with consideration as to how companies contribute to equity, justice, diversity, and inclusion. As ESG ranking systems are

the best way to currently measure the ethical behavior of companies, making sure that companies are not below certain ESG score thresholds can guarantee consistent socially responsible decision-making with investments (<https://www.cesifo.org/en/publications/2023/article-journal/signal-noise>).

Resource Requirements & Return on Investment

Resource Requirements

- Low initial investment
- Reorienting existing Treasury and Foundation staff to research and implement the proposed investment guidelines.

Return on Investment

- The financial return of this initiative is unclear.

Potential Funding Sources

- Funding should come from the existing Treasury operating budget.

Accountable Division(s) & Department(s)

- Office of the Treasury and/or all future departments that deal with cash management holdings
- University of Arizona Foundation

Partners & Collaborators

- Office of Sustainability
- Arizona Board of Regents

Implementation

Length of Time to Implement

- Less than one year
- One to five years
- More than five years

Difficulty of Implementation

- Low
- Medium
- High

- Extremely High

Relative Timing

- Begin within two years
- Begin in three to five years
- Begin in six years or later

Metrics for Success

- Phased decrease in investments' fossil fuel emissions and high ESG portfolio ratings post 2024
- Published climate metrics on emissions from investments and holdings for campus stakeholders to easily access
- Published metrics regarding ESG policy from the university, much like [ASU SRI report](#)