*Following is a letter from William F. Lee, senior fellow of the Harvard Corporation, in reply to correspondence from 'Harvard Faculty for Divestment.'*

July 10, 2014

Dear Colleagues:

We write in response to your recent messages about Harvard's investment practices. We fully support President Faust's conclusion in her letters of October 2013 and April 2014 that the most responsible, effective, and institutionally appropriate way for Harvard to confront the challenge of climate change is to intensify our academic efforts in this important domain through both research and education, to continue Harvard's aggressive efforts to reduce the University's own carbon footprint, and to otherwise promote sustainability in the day-to-day activities of our community. Like President Faust, we do not support divestment, believing that engagement is preferable to withdrawal.

While we will not restate the details of President Faust's letters, we can provide some amplification and respond to your request for more information on Harvard's efforts to ensure it is a responsible investor. None of us doubts the reality or the seriousness of the dangers posed by climate change. Thoughtful people, however, hold divergent views about the right way for an institution like ours to confront climate change. While we may differ on the means, we do not differ on the importance of the challenge or the need to address it. It must be and is a university priority.

All of us believe that Harvard -- and the world -- must make accelerated progress toward ending reliance on fossil fuels. In our judgment, engagement with energy-producing companies in shared research and development on both the improved efficiency of energy use and development of renewable sources of energy is more likely to achieve this aim than divesting ourselves of investments in fossil fuels and distancing us from the companies that produce them.

Whatever the size of our holdings in any particular company, the fact that we are shareholders or investors gives us standing to express our concern about risks of environmental or other societal harm. Harvard, as a shareholder or investor, can insist more credibly on being heard than an institution that does not hold shares, however prestigious the institution may be.

By choosing not to distance ourselves through the blunt instrument of divestment, we are also in a better position to partner with those companies that are exploring alternatives to fossil fuels and those that are working to develop more effective ways to mitigate the environmental impact of burning hydrocarbons. We can collaborate with them on research and work with them to discover better ways to meet the world's energy needs. We are hopeful that in the years ahead, there will be more such companies, and that the scholarship of our faculty will make a difference in these efforts. This sector is rapidly evolving, and we should not assume that the current landscape of energy producers will be the one we will be dealing with in the years ahead.

We also believe that this path is preferable to divestment because it is intellectually consistent with our continuing reliance on fossil fuels. Unless we are prepared to change our life styles profoundly -- in how we live, work, travel, grow our food, conduct our research and in many other ways -- it appears to us problematic to signal that the companies that provide these essential goods and services are beyond the pale. In this way, fossil fuels are clearly distinguishable from tobacco, which is not an essential good. In the case of tobacco stocks, we not only divested, but also no longer sell tobacco products on our campuses. Nor do we allow people to smoke in our buildings.

We can monitor the fuel-producing companies in which we invest to determine whether they are embarked on a sustainable course, in terms of both their long-term development strategies and their sensitivity to the environmental, social, and governance issues that are of serious concern to us. But the world cannot now, without dramatic changes in the lives and aspirations of billions of people, do without such fuels altogether. We will need to continue to use fossil fuels but in the most responsible way we can.

Your letter requests that we share more information about how Harvard is approaching our work as a responsible investor. As you know, Harvard Management Company has appointed a vice president for sustainable investing, a newly created position that is unusual within the world of university endowments. This spring Harvard became a signatory of the United Nations-supported Principles for Responsible Investment, the first U.S. university to do so. PRI is regarded by many institutions and individuals around the world as setting important standards for contemporary practices by institutional investors. PRI now has more than 1200 signatories worldwide, representing more than $34 trillion under management. Having become a PRI signatory in April, Harvard will work to implement our commitment to the principles -- including the third principle, which commits signatories to seek appropriate disclosure on environmental, social, and governance issues by the entities in which they invest.

The path of engagement requires that we take our responsibilities seriously, not only in proxy voting but also in communicating our broader concerns to companies in which we hold stock or other investments. With this in mind, Harvard has also recently subscribed to the climate change program of the Carbon Disclosure Project. The explicit mission of this Project is to press companies "to disclose their impacts on the environment and natural resources and take action to reduce them." We will engage with companies held in Harvard's own portfolio to encourage the disclosure of greenhouse gas emissions, energy use, and climate risks and opportunities, consistent with the CDP's annual disclosure request.

Jameela Pedicini, HMC's new vice president for sustainable investing, has been and will remain a member of the Standards Council of the Sustainability Accounting Standards Board to help develop industry-specific guidelines to enhance sustainability-related disclosures by a wide array of companies. As noted in a recent op-ed by SASB's chair and vice chair, Michael Bloomberg and Mary Schapiro, this initiative aims to create greater transparency and consistency in companies' public reporting of significant environmental and other risks. Meanwhile, as Harvard pursues such efforts, we will continue our careful consideration of how to vote Harvard’s proxies on shareholder resolutions in order to encourage responsible conduct by portfolio companies, and we will follow up by corresponding with such companies in particular cases. As you will see when we provide our annual report on votes on our proxies in the season just concluded, we take this responsibility seriously, relying on the good counsel and close collaboration of the faculty-led Advisory Committee on Shareholder Responsibility.

These are among the steps the University is taking as part of an unfolding effort to incorporate environmental, social, and governance factors more fully into Harvard's investment practices -- and to encourage companies to measure and disclose the impacts of their activities on the environment, as well as other environmental considerations that may affect the future value of their assets. We appreciate and respect your candidly expressed views, and we trust you appreciate that there are others who share your concerns about climate change but nevertheless differ on the best means for effecting change. We will continue to weigh your views along with those of others as we deal with these concerns. We will do so with a deep appreciation of the very real risks posed by climate change, as well as a firm commitment to supporting and advancing the essential academic pursuits that represent Harvard’s distinctive contributions to society.

Sincerely,

William F. Lee, Senior Fellow on behalf of the Fellows of Harvard College