ATTACHMENT AA

March 8, 2016

TO: Members of the Board of Trustees of Pratt Institute

FROM: Mike Pratt, Chair, Sub-Committee on Investments

RE: Statement on Fossil Fuel Investment Policy

The Sub-Committee on Investments, chaired by Mike Pratt and including Howard Stein, has worked with its consultant, Clearbrook, as well as several other investors and thinkers in the field, to respond to the specific request from Pratt Institute's Student Government and its senior administrators that we take action to reduce or eliminate our investments in fossil fuels, and to the Sub-Committee's own concerns about the environmental and economic consequences of climate change. Institutions with assets totaling $3.4 trillion —from public employee pension funds and sovereign wealth funds to universities and foundations—have pledged to divest, with more stepping up each day. While our proposed commitment stops short of full divestment, we believe that our more comprehensive path will substantially maintain our investment performance and is actually a better response to the threat of climate change. While the Committee members may differ on whether the commitment will help or hurt performance in the long run, there is the agreement that any diminution will be modest and reflective of a prudent exercise of our fiduciary duty. We plan to move carefully and slowly, seeking out excellent managers in line with our guidelines.

We ask the Board of Trustees of Pratt Institute to approve the following policy statement:

Statement on Fossil Fuel Investment Policy

Acknowledging the clear existential threat of climate change, and the beginnings of a global response that will in all likelihood include a price on carbon, strengthened Greenhouse Gas (GHG) emission restrictions, and perhaps most importantly technological innovations that will dramatically transform and reduce the use of fossil fuels, the Board of Trustees of Pratt Institute is committed to reducing and possibly eliminating its fossil fuel investments, defined broadly.

Pratt Institute's Student Government and its senior administrative staff have proposed a complete divestment from the Carbon Underground 200, or top 200 owners of fossil fuel reserves. Those investments are currently less than 3% of our total endowment, which is currently valued at somewhat less than $150 million. While recognizing the political saliency of that standard, around which the Divest/Invest movement has coalesced, the Board, on the advice of it Investment Sub-Committee, believes that a more comprehensive approach that looks at overall carbon intensity is preferable, both from an environmental and an investment perspective. In addition to owners of fossil fuel reserves, such an approach looks at sectors, such as utilities, oil and gas exploration and transportation, which don't own significant reserves, but that actually play a significant part in GHG emissions. Pratt Institute will however fully divest itself of all coal company equities reflecting environmental concerns and financial prudence

The Board's first responsibility is as a fiduciary of Pratt Institute. A significant part of that responsibility is the sound investment of Pratt's endowment, to ensure that funds are available for current and future student scholarships and other needs. It is extremely difficult to predict the effect of reduced investment in fossil fuel and/or GHG intensive companies. Any reduction in the diversification of Pratt's investments—including the exclusion of carbon investments--would be presumed to have a modest negative effect. On the other hand, if one believes that reductions in the use of fossil fuels are inevitable given the alternative—global environmental degradation—and that carbon pricing, taxes, restrictions, and new technologies will eventually reduce valuations of fossil fuel owning companies because these fossil fuel assets would be "stranded," their divestment would make sense from a purely financial, investment perspective. New government guidance specifically accepts and encourages the examination of such environmental issues in the exercise of fiduciary duty.

The Board recognizes the potential risks of carbon investment reductions, but believes that they are both relatively modest and that the negative impact of these reductions appropriately balances the burden between current and future generations. The heaviest economic blow could potentially fall on the Pratt community of 30 years hence, when possible annual shortfalls in investment performance have accumulated. But that is precisely the generation that is most at risk if GHG emissions are not reduced.

The Board cautions its Pratt constituents that portfolio adjustment will be a slow process, taking up to five years to achieve completely. Many of our current managers may be unwilling to adopt such a mandate and will need to be replaced. At the same time, the Board anticipates that the pace of technological innovation and the adoption of solar, wind, and other renewable technologies will quicken, creating unanticipated opportunities to prudently invest in sustainable energy and other areas critical to addressing climate change. The dramatic fall in the price of oil, the expansion of natural gas, and other factors are both challenges and opportunities.

The Board wants to particularly thank its students for their concern and perseverance, and specifically commits to providing yearly progress updates. The Board looks forward to implementing portfolio changes that contribute to the preservation of a healthy climate, while maintaining investment performance.