The University of Mississippi Foundation

Environmental, Social and Governance Investing

The University of Mississippi Foundation (UMF) has maintained a policy on Environmental, Social and Governance (ESG) investing for many years. The full policy is available on the UMF website at https://www.umfoundation.com/wp-content/uploads/Financial/Joint_Investment_Policy_Statement.pdf

Section IV A of that policy reads as follows:

A. ESG and Sustainability

We seek to ensure that UMF and all related parties conduct business with ethical standards and ensure that our business practices comply fully, in appearance and deed, with all applicable laws and regulations. In managing the portfolio, all constituents and related parties who are affected by UMF's activities are treated fairly and without prejudice to gender, race, ethnic or national origin, socioeconomic status, age, religion or disability. We encourage and embrace the efficient use of natural resources and continuously look for and expect the best environmental solutions to be executed by our investment managers for their underlying investments in companies or physical assets.

For the Fund, the primary goal is to generate a sustainable stream of distributions to support the University's programs. Mindful of this objective, the Joint Committee will consider the extent to which an investment is consistent with the principles and goals of the University. Where appropriate, the University may seek to influence or avoid those investments that conflict with those principles and goals. Action will only be taken, however, if the Joint Committee believes it would not cause harm to the investment objectives of the Fund, impair performance or place a material burden on the current resources.

UMF works directly with its investment consultant, Fund Evaluation Group (FEG) https://www.feg.com/ to ensure investment decisions are made consistent with this policy and in an effort to encourage investments that align with the University's principles. One of the most well recognized responsible investment organizations is the Principles for Responsible Investing Corporation (PRI) https://www.unpri.org/. PRI is a United Nations-supported network of investors working together to implement its six aspirational principles:

- *We will incorporate ESG issues into investment analysis and decision-making processes.*
- *We will be active owners and incorporate ESG issues into our ownership policies and practices.*
- *We will seek appropriate disclosure on ESG issues by the entities in which we invest.*

- *We will promote acceptance and implementation of the Principles within the investment industry.*
- *We will work together to enhance our effectiveness in implementing the Principles.*
- *We will each report on our activities and progress towards implementing the Principles.*

UMF encourages its fund managers to be PRI signatories, and at June 30, 2021, 12 of our fund managers were PRI signatories representing over $190 million of investment assets (over 25% of the assets we manage). FEG is also a PRI signatory.

Direct Investments

Timber

Beyond the stated policy and focus on PRI signatories, UMF makes direct investments into funds that are designed to focus on ESG investing with a clear benefit to our environment. We began this investing practice in 2009 when we fully funded our $20 million investment in a private timber partnership investment. This fund is in the late stages with over half of our investment returned to us in cash. It has been both profitable and very effective at carbon sequestration. Their active, sustainable forest management optimizes our asset's ability to sequester and store carbon by providing for a continual cycle of planting, growing and harvesting.

> "*In one year, an acre of mature trees absorbs the amount of CO^2 produced by a car driven 26,000 miles.*" https://www.arborday.org/trees/treefacts/

With our ownership interest in thousands of acres of renewable timber, our investment has sequestered and stored well over a million tons of carbon benefiting our environment.

Other Sustainable Assets

In March 2021, our Joint Investment Committee committed $10 million to a firm that invests across a broad range of sustainable asset classes including green bonds, energy-transition infrastructure and capital to finance such things as ecosystem conversion and restoration.
We committed to a public equity strategy with a prominent focus on the environmental factor in ESG, that uses a multi-thematic approach to invest in well-managed, responsible companies that seek to positively impact society and adhere to the United Nations' Sustainable Development Goals (UN SDG's https://sdgs.un.org/goals). The strategy's themes include demographics, technology, environment and governance, which the manager believes to be the major societal transitions that affect all aspects of the economy. In addition to making investment decisions, voting and company engagement are critical parts of the strategy's ESG efforts and process.

Energy Transition

In early 2021, the Joint Investment Committee made a $12 million commitment to a private capital manager dedicated to areas expected to benefit from the continuation of transition away from fossil fuel energy. The fund manager is a PRI signatory established in 2014 to invest

in mining businesses across the globe. The fund looks to capitalize on the growing use of renewable technology across the energy value food chain, which requires significant amounts of copper, nickel, lithium and other metals in the production of solar panels and battery technology.

While mining may seem at odds with environmental protection, it is expected that there will be a continued high demand for the metals required to accommodate the "energy transition" as society begins the process of moving away from fossil fuels in providing energy to the growing populace. Over the past decade, improvements in battery technology and renewable power generation have dramatically changed the energy value chain. In 2020, solar became the cheapest source of unsubsidized power. Renewable penetration into the overall U.S. power mix hit 42% in November 2020. The dramatic shifts in how consumers use power requires significant amounts of metal input. This manager seeks to obtain attractive returns in investing in this rapidly changing segment.

In July 2021, the Joint Investment Committee allocated $10 million to an energy transition focused fund. Our investment is targeted to the manager's long/short fund focused on the new energy transition, with a specific focus on "fuel sources." The fund seeks to make its returns from being structurally long in "new energy" with a managed risk approach.

The fund manager will invest in public companies within this segment. With many new entrants likely to be unsuccessful, the fund with seek to reduce risk with short positions where deemed appropriate and not participate in momentum only investing. The current investable universe for "new energy" is only about 200 names. This is expected to materially expand over the next decade as the global decarbonization theme matures.

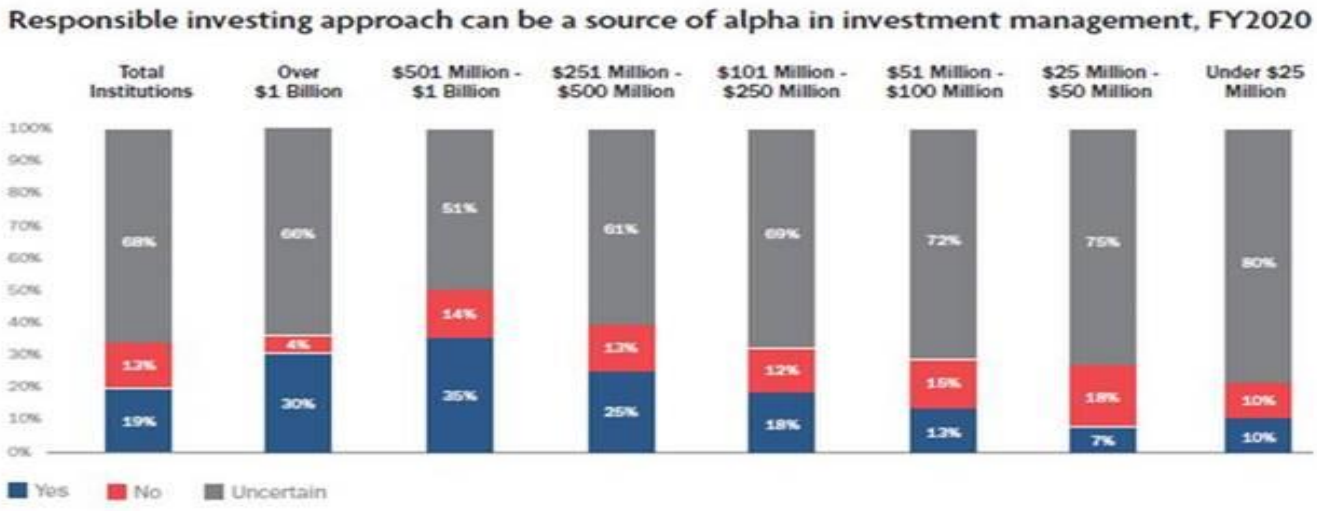
Peers

The UMF peer group is the NACUBO $500 million to $1 billion cohort. Results from the 2020 NACUBO-TIAA Study of Endowments detailed the percentage of endowments that have adopted various responsible investing practices (chart below). Overall, only 25% of total institutions participating in the survey responded to this question. Of that 25%, nearly 57% had incorporated ESG language in their IPS.

Percent of endowments that have adopted various responsible investing practices, FY2020

	Total Institutions	Over $1 Billion	$501 Million - $1 Billion	$251 Million - $500 Million	$101 Million - $250 Million	$51 Million - $100 Million	$25 Million - $50 Million	Under $25 Million
Total Institutions	705	111	80	83	171	134	82	44
Responded Institutions	166	33	37	27	37	18	9	5
Joined ESG Network	16.10%	20.75%	14.81%	17.95%	17.31%	9.09%	10.00%	0.00%
Appointed CSO	5.93%	3.77%	9.26%	0.00%	9.62%	9.09%	0.00%	0.00%
Proxy Voting Committee	7.63%	15.09%	7.41%	5.13%	5.77%	4.55%	0.00%	0.00%
ESG in Investment Policy	56.78%	49.06%	55.56%	66.67%	50.00%	59.09%	90.00%	66.67%
Offered ESG	13.56%	11.32%	12.96%	10.26%	17.31%	18.18%	0.00%	33.33%

It seems clear that the key obstacle to broader engagement by university endowments into direct ESG investments is the concern over returns. Of the respondents to the NACUCO survey, some 80% remain skeptical of whether responsible investing (ESG) can be additive from a performance perspective. This would suggest that many struggle with balancing responsible investing with their fiduciary responsibilities in generating appropriate returns to fund their missions. The following chart from this study is illustrative of such concerns.



Investment performance concerns and potential conflicts with a board's fiduciary duty to sustain its long-term mission were two of the most commonly cited roadblocks to responsible investing in the 2020 survey, as more than one-third of respondents listed at least one of these concerns. Despite a growing body of research in support of responsible investing, a significant percentage of endowments continues to question the investment merits of responsible investing.