



\* The Responsible  
Endowment Project

# REALIZING RESPONSIBILITY:

*A Modern Responsible Investment Framework for the  
Yale Advisory Committee on Investor Responsibility*

## Introduction

In 2009, The Responsible Endowment Project (REP) published *Responsible Returns*, which analyzed the changes in Yale University endowment from 1972 to 2010 in the context of responsible investment. Specifically, the report discussed the shift to alternative assets – 80% of the endowment compared to 0% in 1972 – and the shift to external fund management – currently 99.8% compared to 0% in 1972. These changes represent challenges to the work of Yale’s Advisory Committee on Investor Responsibility (ACIR) as endowment holdings have become more complex and less transparent. Furthermore, the committee’s emphasis on proxy voting, which served it well early in its existence, no longer applies to the vast majority of endowment holdings.

After reading *Responsible Returns* and discussing its findings with REP, the ACIR determined that a new approach to responsible investment was necessary to make the committee an effective complement to the modern Yale endowment. This document is intended to begin with the broad changes recommended in the report and propose concrete approaches for inclusion as part of modern ACIR. This document consists of four sections that represent four procedural steps taken by the committee each year: (1) forming the committee, (2) gathering information, (3) developing an action plan, and (4) effecting change. Each section includes specific procedures or policy recommendations. Where possible, these proposals have been designed to be independent of each other, but some modules do rely on others to be effective.

We hope that this document will sow the seeds for a new generation of responsible investment at Yale, returning the university to the vanguard of ethical institutional investors. This document is submitted as a working paper and we look forward to collaborating with the ACIR, the Yale Investments Office, and the Yale Corporation to improve these proposals and then put them into practice.

## Section 1: Forming the Committee

### Module 1.1 - Increased Membership

**The number of student members should be increased to two undergraduates and two graduate or professional students. The student term length should be two years and terms should be staggered.**

These changes will ensure that student members, whose time in the Yale community is generally the shortest of any of the ACIR's member categories, have ample time both to learn about the complexities of ethical oversight of a modern endowment, and to contribute to the work of the committee. In addition, staggering students' terms – in which students select one representative each year – will allow more continuity on the committee. New student members will be able to learn from a student member who has a year of experience.

Additional student members would also keep the ACIR connected with a broader swath of the student body and put the committee in a better position to accurately represent the University's values in its decision.

Furthermore, while serving on the ACIR, students learn about responsible investment and how organization grapples with complex business and ethical issues. This experience benefits students in their academic and professional endeavors.

### Module 1.2 - Elected Membership

**The members of the ACIR should be elected by their respective constituencies. Alternatively, representative bodies such as the Graduate and Professional Student Senate and the Yale College Council could vote committee members to represent their constituents.**

Open elections will ensure that the committee accurately reflects the values of the Yale community. As stated in *Responsible Returns*, "Considering the committee's role as an arbiter of what the community considers ethical, it is important that its members be elected by their peers." A more open selection process will raise awareness about the committee and attract community members interested in working on responsible investment issues.

### Module 1.3 - Research Staff Position

**The ACIR should create a staff position in order to help with compiling and analyzing information about endowment holdings, researching environmental and social issues relevant to endowment holdings, and communications work, and generally alleviate the burden on the committee. This employee may be full-time or part-time.**

To handle this new, broader engagement role the ACIR will need a staff researcher. Other schools, such as Harvard and Columbia, have such positions. The Harvard Advisory Committee on Social Responsibility (ACSR) has an Associate Secretary. Cheryl Thurman, the current Associate Secretary, writes that this part time position involves: “preparing background material for ACSR meetings, attending ACSR meetings and recording the Committees votes and recommendations. She also works with the Harvard equivalent to the Corporation Committee on Investor Responsibility on “researching issues that come to the CCSR’s attention from the wider community, drafting reports, and ensuring that the CCSR’s voting instructions are recorded.” This position would allow the committee to delegate research and administrative tasks and focus its attention on discussion and advocacy.

## Section 2: Gathering Information

### Module 2.1 - Responsible Investment Disclosures

**Each year, Yale will require its fund managers to complete and return the Responsible Investment Disclosure Form (see Appendix). This form will query fund managers about their responsible investment policies, if any, as well as the countries, industries, and assets in which they invest. In addition, the form will include questions related to specific issues or investments on which the ACIR is focusing.**

This information will allow the ACIR to determine the way responsible investment is implemented across asset classes as well as identify the fund managers that present the best opportunities for engagement on particular issues.

One of the greatest challenges to an effective ACIR is making sense of the thousands of investment holdings held by Yale's fund managers. Many of the targets of responsible investment activity are in particular industries (e.g., mountain-top-removal mining, predatory lending) or geographic locations (e.g., Sudan, Democratic Republic of Congo). If the ACIR knows the countries and industries in which each fund manager invests, it may respond to these issues without a full analysis of each holding. By requesting information about the asset classes and turnover of each fund, the ACIR will be able to choose the funds that represent the best partners for engagement. For example, a private equity firm that makes decade-long investments would be a better partner than a hedge fund that closes out its positions at the end of each day.

Furthermore, Responsible Investment Disclosures will allow the ACIR to provide the Yale community with a clearer picture of the impact of the endowment without comprising the investment strategies of individual managers. For example, the committee could create a map showing the countries in which Yale has investments or a list with the industries in which it invests, highlighting the geographic and industry focus of the ACIR's work in a given year. The ACIR could also provide information to Yale community on the number of fund managers with responsible investment policies, showing progress over time. Ideally, this information would build interest among students and other members of the Yale community, encouraging their involvement in the responsible investment process each year.

### Module 2.2 - Endowment Holdings

**Ideally, the Yale Investments Office should provide the ACIR with a full list of fund managers and their holdings at the beginning of each year or semester. Alternatively, the ACIR could request the holdings of individual managers from the Investments Office as needed, based on information gleaned from the Responsible Investment Disclosures. For example, the committee could request all holdings of managers invested in a particular country, industry, or asset type. Alternatively, the committee could request a list of managers with a particular security (e.g., equity shares of Exxon Mobil).**

This level of transparency would allow the ACIR to identify the appropriate fund managers, corporations, and assets for responsible investment action. For example, if the ACIR is concerned with the conduct of a particular corporation, transparency will allow the committee to develop an action plan involving the appropriate fund managers. Full transparency has the added benefit of allowing the committee to easily scan the list for corporations or assets, research our largest holdings, and to monitor whether the endowment is in compliance with previously determined guidelines (e.g., divestment from the companies complicit in the Sudanese genocide).

Furthermore, the ACIR is responsible for ethical endowment oversight, ensuring that its holdings correspond to Yale's institutional values. To meet this requirement, it is essential that the committee have access to all endowment holdings. While unlikely, it is unreasonable to exclude the possibility that a fund manager might violate previously established responsible investment guidelines or make investments that would immediately seem problematic to the members of the committee. In these cases, only full transparency would allow the committee to fulfill its mission.

## Section 3: Developing an Action Plan

### Module 3.1: Improved Public Meetings

**The ACIR should increase the number of public meetings it holds each year. Two public meetings should be convened annually. The ACIR can also take steps to increase meeting turnout. For example, the committee should publicize meetings using tools such as Facebook, University-wide emails and posters.**

If the ACIR presented information about the endowment and ACIR's role at the meetings, these events would be more accessible and informative for first time attendees. Such a presentation would ensure that everyone in attendance started with the same basic knowledge, fostering a more productive conversation. This presentation could also include some information about the ACIR's current projects (i.e. proxy votes cast, the current focus areas of the committee, active ownership projects being pursued). The meetings would allow the ACIR to educate Yale students, faculty and staff about its work while also hearing community concerns.

### Module 3.2: Online Form for Submission of Concerns

**While public meetings have been and should continue to be an effective way for Yale community members to submit concerns to the ACIR, interested parties should also be able to contact the ACIR about investment responsibility issues via an online submission form.**

This system would make the ACIR accessible outside of public meetings. Community members would be able to submit concerns without waiting for meeting dates. Also, Yale community members not residing in New Haven (i.e. alumni) would be able to take part in the process.

Online form submission would also streamline the ACIR's process for receiving and handling concerns. Each concerned person or group would complete the same standardized form. On the form, the committee would be able to request the same information from each person or interest group. Students and groups would be able to attach documents to the form to enhance the ACIR's understanding of the issue. The ACIR should consider issues proposed through these forms on a rolling basis and should present submitted forms at public meetings.

### Module 3.3: Investor Networks

**In determining appropriate focus areas, the ACIR should consider the actions being taken by institutional investor networks on responsible investment issues. If the ACIR believes resources of a particular network are sufficiently valuable and its initiatives are sufficiently compatible with the institutional values of the university it should consider officially joining that network.**

Investor networks could be important information sources as the ACIR identifies focus areas and ultimately making decisions on how to address issues of concern. These networks provide information on socially responsible investing to members such as investors, non-governmental

organizations and other institutions. This information includes research about companies, issues, or regions on which the ACIR might be focusing. (Networks include the UN Principles for Responsible Investment (UNPRI), Social Investment Forum and the Investor Network on Climate Risk.)

For example, the UNPRI provides reports on social and environmental risks in different asset markets and would help the committee select companies or regions to research. Additionally, the UNPRI's Engagement Clearinghouse allows signatories to the network to share ideas about engagement activities. If Yale joined the UNPRI, this forum could become a helpful way for the ACIR to inform its decision about focus areas and advocacy. Such networks would also help ensure that the committee remains up to date on other SRI activities around the world.

### **Module 3.4: Identifying Focus Areas for Advocacy**

**The ACIR should research all concerns that community members bring to public meetings and submit via online forms. These concerns should form the primary focus areas for advocacy. If these concerns constitute less than five issues each year, the ACIR members should select issues such that the committee is working on five different advocacy areas at any given time. Investor networks would be useful resources to help the ACIR select advocacy areas.**

The committee should use the Responsible Investment Disclosure Forms to identify managers that might be involved in a certain issue. This will require identifying countries and sectors that relate to the issue and then selecting managers that invest in these categories. (The form's Investment Information section includes this information.) Investor networks or independent research would provide information about sectors and countries that relate to the issue.

Once these fund managers have been identified the ACIR should consult these managers particular holdings to determine how they specifically relate to the issue of concern. This process will be detailed in Module 4.3, which discusses engagement.

## Section 4: Effecting Change

### Module 4.1: Voting on Proxy Resolutions in Separately Managed Accounts

**The ACIR should expand its current approach to voting proxies relating to either the environment, social issues, or corporate governance for Yale’s direct holdings to those in investments held separately managed accounts.**

One of the major opportunities for influence that is already built into the ACIR’s mandate is voting on proxy resolutions for its public holdings. Proxy voting provides Yale the power to influence the direction and decision making of companies they hold stock in. Although these resolutions are non-binding, they send a clear message to executives that if the changes are not implemented they risk widespread divestiture of company shares. Yale might augment its socially responsible investing by enabling the ACIR to do proxy voting on its holdings in separately managed accounts. When proxy voting, the ACIR has the option of simply coming to a consensus, or taking some input from the broader community of Yale students and faculty. This strategy would increase awareness across the University regarding Yale’s strategy of socially responsible investing.

### Module 4.2: Filing and Co-Filing Proxy Resolutions

**When determining an appropriate response to a problematic investment, the ACIR should consider filing or co-filing—with other investors that share the ACIR’s perspective—shareholder resolutions on environmental, social, or corporate governance (ESG) issues.**

Filing proxy resolutions enables shareholders to communicate their preferences on the direction a company takes. With a \$2,000 stake in any company domiciled in the United States, any shareholder can propose a non-binding resolution that gets voted upon by everyone with a equity stake in the company. If the ACIR were to take input from organizations or individuals within the Yale community, then this would provide an excellent opportunity for Yale to engage in active ownership on a broad spectrum of its public holdings. The investment knowledge of the ACIR combined with the desire for social justice on campus will provide the impetus for increased community action regarding Yale’s endowment. Yale has a responsibility both as a shareholder and as a university to take the lead on demanding a high standard of corporate social responsibility from the companies it is invested in, and proxy voting and filing resolutions are a critical area for improving Yale’s efforts.

### Module 4.3: Engagement with Fund Managers on Holdings, Industries, & Issues

**After identifying focus areas for advocacy and managers whose investments might fall within these areas, the ACIR should examine more detailed information about these managers’ holdings. The ACIR should search through each identified manager’s holdings for investments that might relate to each advocacy area. The Investments Office should assist the ACIR staff person and committee members as they complete this research. The ACIR will then complete a report on each selected manager’s particular involvement in each issue. Each report will**

**include information about the size and nature of a manager's specific investments that relate to the area of concern.**

These reports will allow the ACIR to make decisions about how to engage the different managers. If the ACIR report indicates that the fund has significant investments that relate to the ACIR's chosen issue, then the ACIR should meet with fund management to discuss solutions.

The ACIR will need to develop different strategies for engaging on each issue and with each manager. Developing these strategies will require seeking help from different experts on both engagement and the issue of concern. The administrative assistant can help the ACIR to contact such experts. The Investments Office should also help the ACIR develop realistic, yet effective, goals for advocating managers. The committee should also examine university views on the issue, government positions and information available from investor networks. Using this information, the ACIR should develop a plan of action and goals for advocacy. The ACIR should then meet with companies to discuss making investments that it has deemed problematic fit Yale's values.

#### **Module 4.4: Engagement with Fund Managers on ESG Policies**

**The ACIR should work with managers to develop (or update) ESG policies.** Managers that have ESG policies will include them on Responsible Investment Disclosure forms. The form will also ask managers to explain how they implement that policy. The ACIR will examine these responses determine which policies seem most effective. Each year the ACIR will choose several policies and work with managers to improve these policies.

**The ACIR should work to develop ESG policies with funds that lack them.** This will involve consulting the manager and investment experts to develop a proper ESG policy for that manager. Resources such as the Social Investment Forum can provide information and data to help the ACIR, Investments Office and fund managers develop such policies. Many Yale professors or other experts may also be able to help the committee create effective ESG policies. The ACIR may choose to develop ESG policies with managers that lack them on a case-by-case basis or create a ESG policy template that can be applied to different managers and asset classes.

#### **Module 4.5: Collaborative Engagement with Institutional Investors & Networks**

**When appropriate, the ACIR should engage with other institutional investors and networks that share the committee's objectives on particular focus areas. This collaboration may take the form of joining existing initiatives or building coalition around issues of importance to Yale.**

Universities that have worked with other institutional investors and advocacy networks to engage companies have often been successful. Loyola University Chicago worked with Responsible Endowments Coalition to file a shareholder resolution asking JP Morgan to report their financing of mountain top removal coal mining. These groups and others also met with senior management at the bank. Ultimately, JP Morgan published a statement in its Corporate Responsibility Report stating that the bank did not finance companies with significant

mountaintop removal investments in 2009. Loyola and Swarthmore College continued to push the company to take strong stances against mountain top removal at JP Morgan's 2010 shareholder meeting. This collective engagement often proves successful as it allows investors to pool resources to put more pressure on companies and managers. When Universities combine to advocate, the threat to the company's publicity and financials becomes much more significant. Such advocacy thus produces swifter responses from companies.

### **Module 4.6: Public Reporting**

**The ACIR should release an annual report that discusses the areas on which the committee has focused, the actions it has taken, and the level of success with which they have been met. Additionally, the report should include a list of the university's fund managers on a one year delay.**

Publicizing information about engagement will make Yale's efforts more effective as it will put increased pressure on companies to make changes to policies and practices. In some cases, publicity may harm engagement and in such instances that ACIR can choose not to publicize an engagement instance but these cases should be exceptions. Disclosing a list of fund managers on a delay will allow members of the Yale community to contribute research and voice their concerns.

This proposal will also insure that the Yale community knows about advocacy taking place within the ACIR so that resources get pooled effectively. For example, if a student group is concerned about a certain issue that group should know that the ACIR is also working on that issue so the group can work with the ACIR instead of taking action that might disrupt the ACIR's progress.

A well constructed report will also have the effect of increasing the Yale community's involvement with the committee. This report will show that the ACIR is working towards meaningful changes, encouraging others to work with the committee.

## **Appendix: Responsible Investment Disclosure**

# Yale University

## Responsible Investment Disclosure

### **About the form**

This form is a product of the Advisory Committee on Investor Responsibility. Formed in 1972, the committee is made up of faculty, staff, students, and alumni who are responsible for overseeing and responding to the environmental and social impact of the Yale endowment. The Responsible Investment Disclosure is meant to help the committee analyze the impact of Yale's private investments. All questions refer solely to fund(s) in which Yale University has invested that are managed by your firm as well as any subadvisers, if applicable.

### **1. General Information**

- a. What is the name of your firm?
- b. What is the current value of assets managed for Yale University? Please specify whether market value or book value is provided.
- c. Is any employee at your firm responsible for responsible investment, sustainability, or environmental, social, and corporate governance (ESG) decision making? If so, please list that person's name, title, e-mail address and phone number. If not, please list that information for someone else we can contact regarding questions about responsible investment at your firm.

### **2. Responsible Investment Policy**

- a. Does your firm have a written policy regarding proxy voting, sustainability, responsible investment, or environmental, social, and corporate governance (ESG) risk? If yes, please explain how your firm ensure compliance with the policy and append a copy of the policy to this form. If yes, does this policy apply to all funds managed for Yale University?
- b. Does your firm produce proxy voting, sustainability, or ESG reports? Are such reports made available to your investors? If yes, please attach reports released in the past year.
- c. What is your firm's position on whether ESG factors can have a impact on financial performance? Does your firm support the concept that companies can enhance value and long-term profitability by incorporating ESG factors into their operations and strategic plans?
- d. Are ESG issues considered separately from traditional financial criteria, or are ESG issues integrated into a company assessment? Are the sources of ESG research internal, external, or both?
- e. How, and to what extent, does your firm engage on ESG issues with companies in which you invest? How do you evaluate the success of the engagement process? If your firm does not engage, explain why.
- f. If you invest in publicly-traded equity, who at the firm is responsible for proxy voting? Does your firm have a proxy voting policy? If yes, does the firm vote its own proxies, or does a third party provider? If proxies are voted by an external proxy voting service, is the service required to vote proxies in accordance with the firm's guidelines and policies or the policies of the external service?
- g. Is your firm a signatory to the United Nations Principles for Responsible Investment? What ESG-related organizations (e.g., Investor Network on Climate Risk, Conflict Risk Network) are you a member of and/or in what initiatives has your firm participated?

# Yale University

## Responsible Investment Disclosure

**3. Investment Information** - All questions in this section refer to assets currently held by the fund(s) and those held by the fund(s) in the past year.

a. Which of the following assets are currently held by the fund(s) or were held by the fund(s) over the past year? (check all that apply)

- Publicly-Traded Equity
- Publicly-Traded Corporate Debt
- Publicly-Traded Sovereign Debt
- Private Equity
- Private Debt
- Private Residential Real Estate
- Private Commercial Real Estate
- Private Timber

b. Please list all countries in which the issuers of corporate debt or equity held by the fund(s) are domiciled.

c. Please list all countries in which the issuers of corporate debt or equity held by the fund(s) have operations.

d. Please indicate all industry groups in which the issuers of corporate debt or equity held by the fund(s) operate.

<input type="checkbox"/> Energy <input type="checkbox"/> Materials <input type="checkbox"/> Capital Goods <input type="checkbox"/> Commercial & Professional Services <input type="checkbox"/> Transportation <input type="checkbox"/> Automobiles & Components <input type="checkbox"/> Consumer Durables & Apparel <input type="checkbox"/> Consumer Services <input type="checkbox"/> Media	<input type="checkbox"/> Retailing <input type="checkbox"/> Food & Staples Retailing <input type="checkbox"/> Food, Beverage & Tobacco <input type="checkbox"/> Household & Personal Products <input type="checkbox"/> Health Care Equipment & Services <input type="checkbox"/> Pharmaceuticals, Biotechnology & Life Sciences <input type="checkbox"/> Banks <input type="checkbox"/> Diversified Financials	<input type="checkbox"/> Insurance <input type="checkbox"/> Real Estate <input type="checkbox"/> Software & Services <input type="checkbox"/> Technology Hardware & Services <input type="checkbox"/> Semiconductors & Semiconductor Equipment <input type="checkbox"/> Telecommunication Services <input type="checkbox"/> Utilities
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e. For the energy, materials, capital goods, food, beverage, tobacco, pharmaceuticals, biotechnology and life sciences, and real estate industry groups, please indicate all of the sub-industries in which the issuers of corporate debt or equity held by the fund(s) operate. (see attached for sub-industry list)

f. What is the annual turnover ratio for the fund(s)?

- <10%    
  10-25%    
  26-50%    
  51-75%    
  76-100%    
  >100%