

GUIDELINES FOR RESOURCES COMMITTEE
CONSIDERATION OF INVESTMENT-DRIVEN
“SOCIAL RESPONSIBILITY” ISSUES

Introduction

At Princeton, the Board of Trustees has the sole responsibility for all investment matters, including the determination of University policy on all investment-driven “social responsibility” issues that arise as a result of our ownership of corporate securities. Although the Trustees have traditionally sought the advice of the Resources Committee on such issues, they retain the responsibility for final decisions on such matters. Indeed there have been several occasions in the past when the Trustees have elected a different approach than that submitted by the Resources Committee, and they reserve the right to do so in the future. Recommendations submitted by the Resources Committee will always be given serious consideration by the Board of Trustees, but actual decisions by the Board will depend on overall University policies and objectives, as well as the particular arguments made in support of each recommendation.

It should also be recognized that no set of guidelines can be expected to cover all situations that could arise. Thus, no matter how careful we are in the preparation and review of these guidelines, it will still be necessary to make case-by-case judgments in the future as we seek to deal with particular social responsibility issues.

In addition, we should all recognize that there are practical limits to what the University can and should do in this area. In some cases it will not be possible to collect the kind of information we would want and need to make an informed judgment about an issue. In other cases, the lack of staff or other resources will limit what we can do to pursue a particular issue in a responsible way. Because the University’s basic mission is teaching and research, the resources available to pursue other issues are – and should be – extremely limited. While the University cannot avoid these issues entirely, the Board of Trustees believes that we serve society best by concentrating our resources on those teaching and research activities.

Notwithstanding these limitations, we believe that the guidelines will be a practical and useful tool for the Resources Committee as it evaluates the various “social responsibility” issues that regularly arise as a result of University investments. Given the precedents established at Princeton through our discussion of South Africa-related issues, the policies followed at other institutions, both for South Africa and for other investment issues, and the increase in the level of shareholder activism generally, we believe that additional guidance of this kind will prove helpful for future Committees.

In the consideration of any investment-driven social responsibility issues, we recommend that future Resources Committees follow guidelines such as those described in Attachment 1 and explained below, rather than reviewing those issues on a purely ad hoc basis. In general, the purpose of these guidelines is to assist the Resources Committee in trying to evaluate such social responsibility issues, by making the evaluation process more consistent and providing a greater degree of objectivity in a process that is often charged with emotion and dependent on individual judgment. These guidelines will not be automatic or definitive in determining what the Resources Committee would recommend for a specific company whose conduct seems questionable; clearly, those judgments will continue to be made on a case-by-case basis. Rather, these guidelines are intended to help the Committee determine which issues warrant monitoring by the Committee and a possible recommendation to the Trustees for further action, in contrast with the vast majority of stockholder issues on which the University should remain silent.

Background

The University has been concerned with investment-driven social responsibility issues for more than 20 years, largely in the context of corporate investments in South Africa. Policy statements have been issued by the Trustees at several points explaining the University's policies and how those policies could be implemented and adjusted over time. In developing the guidelines described in this document, the Resources Committee has relied heavily on these existing policy statements and on the "case law" that has been built up over the last two decades, and we believe that the guidelines we are proposing here are consistent with those policies as they have been developed and explained by the Trustees. The current effort is designed to give more focus to the work of the Committee and to translate the existing policies and procedures from the specific case of the South African investments into guidelines that can be applied more generally, in order to help us consider other kinds of social responsibility issues more efficiently.

The following quotations from earlier policy statements seem to us to summarize quite well the general approach the Trustees have taken in considering social responsibility issues:

1. The "basic functions of the University are to transmit and expand knowledge through teaching and scholarship. In carrying out these functions there is a strong presumption against the University as an institution taking a position or playing an active role with respect to external issues of a political, economic, social, moral or legal character" (February 1978 Statement on role of the University in confronting external situations). The May 1978 Statement on South Africa amplifies that point – "We should be extremely reluctant to override this presumption because to do so may threaten the essential independence of the University."
2. "At the same time, the Trustees have recognized that there may be very unusual situations in which the University simply does not wish to be associated with a particular company through ownership of its securities or acceptance of its gifts or grants" (1985 Statement). To date, the only investment-related issue that has crossed this threshold of significance has been the conduct of companies that operate under the apartheid state in South Africa.

For the most part the Trustees have delegated the responsibility for selecting specific investments to outside money management professionals. These professionals are provided with a detailed investment policy statement that describes our basic investment goal of maximizing the total long-term return on the endowment consistent with acceptable levels of risk. Quite deliberately they have not been asked to take into account any non-economic social, political, or moral guidelines other than those few South Africa-related limits explicitly approved by the Board of Trustees. The Trustees expect that, in carrying out this assignment, the investment managers will vote on all shareholder resolutions in a manner consistent with the overall investment objective of maximizing the total long-term return on those investments, rather than seeking to achieve some separate social objective. The Trustees have recognized, however, that in highly unusual situations, certain types investments may be inappropriate and specific positions may need to be taken on proxy issues that go beyond purely economic interests and involve political, social, or moral judgments. The purpose of this document is to attempt to establish some criteria which the Resources Committee can use to evaluate possible candidates for such special treatment, in order to help the Committee meet its responsibility to develop a recommendation for the Trustees as to whether or not the circumstances of a particular situation really do call for a special response from the University.

Preamble to Guidelines

These guidelines were developed by the campus-based Resources Committee as a way of articulating University policies on these issues and providing guidance to future Committees about how they might deal with specific investor-responsibility issues in the future. The Board of Trustees agrees with the principles articulated in the guidelines and endorses the recommendations about the process to be followed by the Resources Committee and others to interpret and implement these policies. Accordingly, the guidelines were formally adopted by the Board at its meeting of January 25, 1997. However, even while officially adopting these guidelines, the Board wishes to be absolutely clear about the status of the guidelines and how they will be used to help the Board resolve investor-responsibility issues. In particular, the Board makes the following points:

First, these are quite literally guidelines and do not require the Board to follow any particular course of action with respect to any such issue. The Board explicitly reserves the right to deviate from the guidelines in dealing with any specific investor-responsibility issue, as well as to revise or replace the guidelines if and when that seems appropriate.

Second, the interpretation of what kinds of issues involve core University values or directly affect the University is the responsibility of the Board. Advice will -- and should-- be sought from the Resources Committee and other members of the on-campus community on this question, but the Board reserves the right to interpret University interests as narrowly or broadly as they see fit consistent with the University's Charter and Bylaws and externally-imposed laws and regulations.

Third, the guidelines deal primarily with the process to be followed by members of the campus community in raising investor-responsibility issues. Individual Trustees have the right, indeed the responsibility, to raise such issues directly with the Finance Committee or the full Board whenever and in whatever form those issues arise.

GUIDELINES FOR CONSIDERING EXCEPTIONS TO THE STATED INVESTMENT POLICIES AND PROCEDURES

0. If there is considerable, thoughtful, and sustained campus interest in an issue involving the actions of a company or companies in the University's investment portfolio, the Resources Committee will study the issue. In the first instance, the Resources Committee will determine what constitutes "considerable, thoughtful, and sustained campus interest" in each case and report its conclusions to the Trustees. It may be appropriate, for example, to require that an issue be raised several times over an extended period of time, say two academic years. The Resources Committee will also consider the magnitude, scope, and representativeness of the expressions of campus opinion in making this determination.
1. Assuming that the Resources Committee believes there to be sufficient campus interest in an investment-related issue and recommends that a more extensive review be conducted, the Committee would then try to gauge the importance of the issue. More specifically, we would try to determine whether or not there was a central University value clearly at stake. Defining those core values in the absence of a particular issue is difficult, but, for example, it is clear that the University places very high value on individual human rights and freedom of expression and dissent. As stated in the 1985 policy on South Africa, however, "such values do not encompass particular political or social strategies for achieving them. Also, it must be recognized that there will be real dispute as to whether certain kinds of questions do or do not need to be thought of as posing potential contradictions to these values." Here we must differentiate between issues that involve our "core" values, which do warrant attention, and tactical positions that represent proposed ways to achieve particular results, which we would not endorse.

If the Resources Committee determined that there was not a central University value clearly at stake, it would document that finding and recommend to the Trustees that no further action be taken. If the Resources Committee determined that a central University value was clearly at stake, it could recommend that the issue be studied further as described below.

2. Assuming considerable campus interest and a central University value clearly at stake, the Resources Committee would seek to determine whether it was possible for the University community to reach a consensus on how the University should respond to the situation. Such a response must be both general and specific; i.e., any recommendation for a University response on such an issue must make a clear and explicit connection between the general core values of the University and the specific corporate policies and practices. In this process we should seek ways "to respond that are genuinely affirmative, that offer at least some possibility of constructive impact, that are consistent with the fundamental character of the University as an academic institution, and that can merit broad support through the University" (1985 Statement).

If no such consensus is possible on the specific action being proposed and if the issue is brought forward as a shareholder resolution, the Resources Committee might suggest to the Trustees that the University abstain on that proxy issue and accompany such a vote with a letter to management explaining the University's rationale behind the abstention*; such a step would not necessarily lead to any further action in subsequent proxy votes or to possible investment restrictions. If it is possible to reach a consensus position on both the general issue and the specifics of the proposed action, the Resources Committee would recommend that the issue be examined further as described below.

3. The Resources Committee would then try to assess the extent to which the actions of a specific company in our portfolio represented a direct and serious contradiction of the central value that

was involved here. In effect, we would be trying to make a judgment about whether the action was so clearly in violation of the University's central values that the Committee would recommend to the Trustees that they consider dissociating from the corporation or, alternatively, whether the University could, on balance, be comfortable with a continuing relationship with that corporation even in the presence of a specific action or actions we found objectionable.

If the Resources Committee determined that, on balance, it was not necessary to recommend dissociation from a corporation or corporations even if it or they continued to act in a manner the University found objectionable, the Resources Committee might recommend to the Trustees that the University communicate its concern directly to the company, through direct correspondence and/or via the shareholder proxy process, accompanying any proxy votes with a letter to management explaining the reasons for the vote; again, such a step would not necessarily lead to any further addition in subsequent proxy votes or to possible investment restrictions.

If, on the other hand, the Resources Committee determined that the action in question represented a serious and direct violation of the core values of the University, the Committee would recommend that the Trustees communicate that concern to the company and begin to monitor the activities of the company – assuming that such monitoring was feasible with the resources available – in order to assess whether there was any change in corporate policy or procedures that addressed our concerns. Depending on the response of the companies, the Trustees could decide eventually to dissociate, at which time the University's investment managers would be instructed to sell all securities associated with the company or companies in question and would be precluded from repurchasing those securities. In addition, no gifts or grants would be solicited from or accepted from those companies other than those designed to match the gifts of individuals. "For Princeton, the purpose of selective divestiture is to separate the University from companies whose conduct contravenes the values of the University; the purpose is not to make political statements, to censure governments, or to pressure either companies or governments to adopt particular policies" (January 1987 Statement).

*An abstention vote can be used to indicate our interest in a subject without voting for or against the particular proposal under consideration. Abstentions can be an effective mechanism for attracting management's attention on an issue.

[Adopted by the Board of Trustees January 25, 1997]

Attachment 1

GUIDELINES FOR RESOURCES COMMITTEE CONSIDERATION OF INVESTMENT-DRIVEN “SOCIAL-RESPONSIBILITY” ISSUES

Basic Tenets:

“There is a strong presumption against the University taking a political position or playing an active role with respect to external issues of a political, social, or moral character.”

“At the same time, the Trustees have recognized that there may be very unusual situations in which the University simply does not wish to be associated with a particular company through ownership of its securities.”

Situations could arise based on the conduct of an individual company, groups of companies or based on the problems faced by companies which operate in certain locales.

1. **Is the underlying issue of significant importance in terms of considerable and continuing campus interest?**
If NO, recommend to Trustees that the proxy issue be delegated to external investment managers. If YES, go to 2.
2. **Is there a central University value clearly at stake?**
If NO, recommend to Trustees that the proxy issue be delegated to external investment managers. If YES, go to 3.
3. **Is it possible to develop a collective position that reflects this value and relates to corporate action in a fair and consistent manner?**
If NO, recommend to Trustees that the proxy issue be delegated to external investment managers. If YES, go to 4.
4. **Does the particular action or position of the company conflict with the central values of the University?**
If NO, recommend to Trustees that the proxy issue be delegated to external investment managers. If YES, go to 5.
5. **Develop recommendation for the Trustees concerning: appropriate changes in investment and proxy policies; a fair and consistent monitoring process; ways to communicate the University position and evaluate response; and the possibility of dissociating from companies whose conduct violates the University’s core values.**