

Report of the Resources Committee Regarding Investment in Companies Conducting Operations in Sudan  
May 2006

In the fall of 2005, as the Resources Committee moved to develop forums for discussing shareholder responsibility, concern over holding investments in companies doing business in Sudan became paramount. At that time, colleges, universities, charitable organizations, and state pension funds were increasingly choosing to divest from and/or avoid investment in companies operating in Sudan. The Resources Committee, with the endorsement of the Trustee Committee on Finance, turned its attention from questions of investor responsibility to the more time-sensitive issue of investments in Sudan.

After reviewing the issues, including a review of the actions of other universities, charitable organizations and public pension systems, and learning more about the political and economic climate in Sudan, the Resources Committee concluded that some action was warranted. Specifically, the Committee believed that action by Princeton regarding its current or contemplated investments in selected companies whose business activities in Sudan were directly or indirectly supporting the violence in Darfur was necessary. The Committee then began to consider various guidelines for reviewing Princeton's investments in companies doing business in Sudan.

The University's tradition has been to first engage companies in dialog to change corporate behaviors and if that fails, to divest. In this case, however, the Resources Committee felt it important to move more quickly. In March of 2006 the Resources Committee indicated "In the current case, given the lateness of the hour, we propose that an effort be made to engage identified companies with a clear deadline for response. If this effort fails, then divestment would be the appropriate action."

The Committee determined that the interest in the conditions in Darfur met the University's general standard for taking action, determining that "there has been 'considerable, thoughtful and sustained'...campus-wide interest in the violence inflicted on the population of Darfur, and this interest has been ongoing for more than two years."

The Committee recognized that since the University's divestment standard was articulated in 1997, the process of managing the University's endowment, the financial markets, and the instruments available for investment had changed. Only a small fraction of the University's endowment is held directly in corporate stocks. Thus, any divestment strategy would impact only a very small share of the University's portfolio. However, the Committee felt that "divestment of directly held assets remains a powerful tool..." In addition to addressing the question of divestment of directly held stocks, the Committee also tried to outline a process for working through investment managers to assess the University's specific holdings in commingled funds.

Ultimately, the Committee recommended that Princeton follow the standard Yale developed to deal with companies doing business in Sudan. That standard was to identify a set of specific guidelines regarding company behaviors that are inconsistent with university policies and to

divest, or avoid investment in, those companies displaying inappropriate actions. The Resources Committee recommended establishing a set of clear criteria by which Princeton could determine whether a firm's behavior in Sudan warrants divestment and could apply this policy to particular companies and review progress on a case-by-case basis.

The Resources Committee attempted to establish standards for evaluating companies' behavior in Sudan. The Committee outlined its proposals to the CPUC in April. The Committee proposed that the "University divest of assets directly held in any company actively conducting operations in Sudan that supports acts of genocide or renders assistance to perpetrators of genocide.

Assistance includes but is not limited to,

- providing significant revenue, directly or indirectly, to those sponsoring, committing or allowing genocide,
- providing the instrumentalities with which to commit genocide where the company knows or should know that those instrumentalities will be used to commit genocide, and/or
- providing aid to perpetrators, directly or indirectly, that amounts to participation in acts of genocide.

The committee suggested that the Board of Trustees adopt these guidelines and the "direct PRINCO, the University Treasurer's office, or another appropriate office or body to use the guidelines to determine which companies should be considered for divestment or avoidance if not currently owned." The Committee recommended that action be taken in two steps in those cases where stocks were directly held. First, the Committee recommended that the University should attempt to engage companies in a constructive dialog over a specific time period. Failing that, the Committee recommended divestment or efforts to avoid holdings in these companies.

The Committee recommended applying the same evaluation standards to any future University investment in companies conducting business in Sudan and asked PRINCO to advise portfolio managers of the University's standards and concerns. In particular, the Committee recommended that the University should inform its portfolio managers of Princeton's concerns and should "a) ask for a report on ownership of the...companies; b) suggest that the managers give careful consideration to Princeton's concerns and own investment decisions when making current and future investments; and c) ask for comments on and reaction to Princeton's actions from these managers."

At its June 2006 meeting, the University's Board of Trustees adopted a policy to disassociate from companies that directly or indirectly conduct operations in Darfur that support acts of genocide and to prevent future investment in such companies. At the time, Princeton did not hold direct equity positions in any companies doing business in Sudan.

In order to implement its policy, the Board of Trustees directed the University to review the operating behaviors of five companies that had been identified as being active in Sudan. Letters were sent to PetroChina, Sinopec, Tatneft, ABB Ltd., and Bharat Heavy Electronics. The University was thought to have a low level of indirect involvement with these companies through mutual funds or other commingled investments.

Throughout the summer of 2006 the Treasurer's office conducted conversations with these companies. After all five companies responded the University determined that it did have exposure to Tatneft which had ceased doing business in Sudan, although it had previously traded arms for oil. PRINCO decided to liquidate its holdings in Tatneft for reasons unrelated to Sudan.

PRINCO has advised the University's investment managers of Princeton's standards and concerns. The Treasurer's office and PRINCO have avoided any direct investment in companies whose behavior in Sudan is complicit with acts of genocide.