

## Resources Committee Report 2015-16

### Part One: Summary of Committee Activity

This was a transitional year for the Resources Committee, as it welcomed three new members and it transitioned from being supported ably for the past ten years by Karen Jezierny, to being staffed by Vice President for Finance and Treasurer, Carolyn Ainslie. Early meetings were devoted to clarifying the Committee's purpose, understanding its history, and learning about the philosophy and practice that guide PRINCO. In the spring semester, the Committee met with campus groups representing three issues: the Middle East conflict; the private prison industry; and the fossil fuel industry.

On March 4, 2016, a group came to the Committee to follow-up on an issue from the last academic year. The group was involved in mounting opposition to a referendum regarding a request for the University to divest from companies that "contribute to or profit from the Israeli occupation of the West Bank." The proposal was not endorsed last year by the Committee, in particular due to the conspicuous lack of consensus on campus.

The group came to the Resources Committee this year to tell the committee members that, while their efforts had been successful in proving the lack of consensus, it was an extremely challenging experience. They explained that the language and posture of many who engaged in the debates were disrespectful and sometimes anti-Semitic. They expressed concern that the process of drafting petitions and voting on referenda had created division and anger on campus, as opposed to facilitating increased understanding and civil discourse. The group asked the Resources Committee to provide clarity regarding its guidelines and criteria, and sought advice to prevent another such divisive episode.

Committee members acknowledged that the process of drafting petitions and putting controversial issues to a vote can sometimes contribute to a divisive climate, and encouraged continued activity intended to foster education, discussion, and shared understanding on the issues. The Committee offered its assistance in co-sponsoring events such as panel discussions or symposia to advance deeper understanding of the complex issues involved in the Middle East conflict. The Committee also confirmed that a referendum with a less than overwhelming majority and high participation could not be taken as evidence of consensus, and the Committee concluded that it should encourage groups submitting proposals to seek other ways than referenda in advancing their cause, when aggravated divisions are the most likely outcomes of such referenda.

The second group to come to the Committee on March 4 represented a coalition of student groups to speak about divestment from private prisons. Students represented three organizations: Students for Prison Education and Reform (SPEAR); Development, Relief, and Education for Alien Minors (DREAM); and Muslim Advocates for Social Justice and Individual Dignity (MASJID).

The students expressed their opposition to the practice of having private, for-profit companies running prisons, and indicated their interest in developing a proposal to seek divestment from such companies and associated businesses. They requested guidance regarding how they might meet the Resources Committee's criteria of sustained campus interest, consensus, and shared value.

Committee members explained that there are no defined metrics that would confirm things such as consensus and sustained interest, and encouraged the students to engage in opportunities to educate the University community about the private prison industry. Since it was the first time that this issue had been brought before the Resources Committee, the students were encouraged to continue to research the issue and promote campus dialogue before forming a formal proposal. The Committee members expressed willingness to support such efforts, and committed to learning more about the process that led Columbia University to act on divestment. The Committee reminded the students that petitions and referenda are not always the most effective way to gather evidence of consensus or sustained interest, and can, in fact, become counter-productive. Committee members offered to provide assistance and continue the dialogue with SPEAR.

At its March 25, 2016 meeting, Carolyn Ainslie and Susan Ciniglio reported on discussions they held with colleagues at Columbia University regarding Columbia's decision to divest from private prison companies. The divestment resolution for direct investment was passed after approximately two years of student activism and campus-wide educational initiatives. It was noted that the criteria that guide Columbia's divestment recommendations are community sentiment, the merits, and the possibilities for shareholder engagement.

On May 10, 2016, SPEAR representatives met again with the Committee with a revised and fleshed out proposal. They argued that they believe their proposal now meets the criteria of consensus, sustained interest, and conflict with a core University value. In spite of a low turnout (30.1%) in a USG referendum, they argued that the number of students in favor was large, and emphasized that the proposal met with no opposition. Discussions with the Committee led to the conclusion that the proposal had made a lot of progress and had to be further developed in a few directions: showing support beyond the undergraduate constituency, finding objective analysis by neutral experts confirming that mass incarceration generates serious human rights violations and that private prisons not only profit from it but aggravate these violations (the latter point is less necessary, but is plausible given evidence provided by SPEAR and would constitute a serious additional argument in favor of divestment). The Committee offered to help finding experts and provide logistics for a forum or a workshop on this issue.

On April 22, 2016, students representing the Princeton Sustainable Investment Initiative (PSII) presented a proposal to the Resources Committee requesting that the University divest of its "holdings in all coal extraction companies," and "commit to a gradual reduction and eventual end to its investment in all other fossil fuels."

The students built on their presentations from last year with focus on divestment from coal extraction companies. They requested continued discussion and understanding of the Resources Committee's governance and decision-making processes. Given the small size of the Resources Committee and its advisory role, it was explained that there is no formal voting process and thus consensus is sought on every issue that is dealt with. With that said, it was agreed that written reports of the Committee could convey the sense of the group conversation. In the unusual absence of consensus on a specific proposal, these reports would obviously include any differing viewpoints or considerations that were part of the discussion.

There was general acknowledgement that sustainability is an important value for the University. This is demonstrated by the University's sustainability plan and the set of principles established to guide the University as it creates plans for the future including the campus plan and considerations of the

CO2 mitigation committee proposal. The issue being debated is whether the support of sustainability extends into constraints on the investments in the endowment. There are some that feel that divesting may be consistent with the University sustainability goal even if we can't completely disassociate with carbon energy. There are some that feel that the indirect symbolic move of divestment would result in sub-optimal investment outcomes and would come at a cost that over time would reduce the university's ability to invest in capital infrastructure and/or teaching and research that could directly contribute to the University's sustainability goals. The issue is complex and it is perceived to be very important but not necessarily with the same moral imperative of other situations such as Darfur.

The students and the Committee discussed the recent communications from President Eisgruber, President of PRINCO Andy Golden, and peers (such as Yale). There was some sense that even more public statements might be helpful to build trust in our campus community about the ethical standards of our financial management.

It is anticipated that these topics will be part of the continued agenda of the Resources Committee in the next academic year, and suggestions are made below about possible ideas to explore.

The Resources Committee is a committee of the Council of the Princeton University Community (CPUC). By charter of the CPUC, members consist of the Financial Vice President, 3 members of the faculty, one graduate student, and two undergraduate students and one other member from one of the other groups represented on the Council. A member of the Princeton University Investment Committee (Princo) serves as a non-voting member.

The 2016 committee was chaired by Professor Marc Fleurbaey and benefited from the participation of Professors Christopher Achen and Lynn Loo; David Schwartz GS; Daniel Teehan '16; Susan Wang '18; Leila Shahbender, Senior Manager, Customer Services, Support Services, Office of Information Technology; Carolyn Ainslie, Vice President for Finance and Treasurer; Susan Ciniglio, Associate, Princeton University Investment Company; and the staff support of Margaret Fox-Tully, Director of Organizational Effectiveness and Communication in the Office of Finance and Treasury.

## Part Two: Conclusions and suggestions for the 2016-2017 Committee

In light of these meetings and enlightening conversations with campus members, the Committee recommends that next year be the occasion for the (successor) Committee to further explore ways to deal with two issues mentioned above.

This Committee achieved consensus on general ideas but did not have the time (due to accommodating late-minute requests for meetings by campus members) to reach consensus on concrete steps. The areas of consensus and lack of consensus are made explicit below.

First, there is a demand, in the campus community, for efforts to increase trust in the ethical standards of the management of the endowment. The memo published in 2015 by Andrew Golden provides a most valuable basis for such trust-building efforts. The Committee considers that continued efforts in the direction initiated by this memo would be very useful. The memo contains a

presentation of the working method adopted by PRINCO, an articulation of the ethical considerations that are taken into account, and examples of investments and precautions that have marked past decisions. The Committee suggests that a more formal statement of the principles guiding PRINCO's work might make a great contribution.

Most members of the Committee thought that one idea worth exploring in this respect is signing a known declaration of principles. For instance, last year, the Committee considered and turned down the proposal to sign the Principles for Responsible Investment (PRI), on the grounds that such signature would be primarily symbolic and that Princeton generally avoids such public relations gestures, and also in light of the publication of Andy Golden's memo which provided assurance that similar (or even better) principles were already enacted by PRINCO. This year, the Committee recognized the value that such a signature would have inside our campus community, as an internal guarantee that such principles do correspond to our general commitments in endowment management. Moreover, the PRI provides a simple framework for reporting on environmental, social and governance (ESG) issues. However, one member of the Committee still objected specifically to the PRI. In summary, the Committee invites the successor Committee to re-examine this action in this new light, or consider a similar action reinforcing the publication of Andy Golden's memo last year.

The second issue has to do with the contestation of the disassociation rule by some of the groups the Committee met. In particular, the PSII members agreed that energy companies do not qualify for complete disassociation (a point forcefully made by President Eisgruber last year in his letter to the Committee) but argued that they do harm the environment in a way that should count against investing in them. They also stated that insofar as costly actions are undertaken on campus in the name of ethical values such as sustainability, it is hard for the campus community to understand why ethical considerations cannot also play a part in the management of the endowment. Reflecting on these conversations, the Committee reached consensus on the idea that it is worth studying ways in which ethical values could play a stronger role than in the usual ESG considerations attended to by PRINCO, without leading all the way to disassociation. Currently, ordinary ESG issues are considered by PRINCO only when they are associated to risks of regulation change, litigation costs, or reputational damage, which means that, except for the reputational type, they never contravene cautiously maximizing the long term return to investment (which is the main mission of PRINCO). While being very aware that deviating from this practice would generally have a real cost in terms of diminished returns, the Committee recommends an examination of a possible modification of the guidelines of the Committee, in order to make room for discussions about additional incorporation of ethical considerations in our investment policy that would not lead to disassociation.

What follows now is an explanation of what such "ethical investment" means, how it could be implemented (in very general terms), and what type of ethics it would be based on. These explanations, approved as such by most members of the Committee, are only offered as illustrations of possible ideas the future Committee could examine, if it so wishes, among many others.

Ethical investors recognize that market prices and returns fail to incorporate social costs and benefits, e.g., associated with externalities in private activities. An ideal political system would take care of such issues and would implement policies (e.g., regulation, taxes and subsidies, public education and information) designed to make private agents internalize these social costs and benefits. But very often such policies are not implemented, or not implemented to the scale that would fit the ethical investor's values (as an example, consider the price of carbon, which is unlikely

to reach the levels recommended by some experts of this University). This is why ethical investors go the further step of correcting the market returns in their internal calculations for portfolio selection. This is generally difficult because quantifying externalities is hard, but assessing prospective returns in the conventional way is also an art that defies easy quantification. A useful guideline for ethical corrections is provided by imagining what *adequate* policies (in the eyes of the investor) would entail for the profitability of assets (this method is mentioned in Golden's memo). Another form of ethical investment that has been mentioned by Committee members involves defining target amounts of investment in specific "ethical" domains. Ethical investment does not imply disassociating from companies involved in nuisances, because morality does not require eliminating nuisances, but only counting their cost appropriately. It may not even always entail divestment. Moreover, the same company may be involved in "good" and "bad" activities. For instance, imagine the case of an energy company that relies on fossil fuels but also invests in research and development in renewable energy. The net balance of these two features, depending on their relative importance, may lead to reducing or increasing investment in this company compared to what market profitability would recommend.

What type of ethics justifies ethical investment? It must be emphasized that ethical investment is generally costly in terms of non-corrected returns, and that, even in the case of a large portfolio, it has little or no effect on the environmental or social problems that motivate the corrections. In general, only coordination with large networks of ethical investors, or a strong demonstration effect, can have an impact. Therefore, there are two types of ethical investors. Some investors primarily want to act in coherence with their own values. Other investors, in contrast, seek to maximize impact and therefore typically rely on coordinated action. Note that in its divestment-disassociation policy, the University relies on the former approach (as stated in the guidelines and very clearly articulated in President Eisgruber's letter).