

Brown University

Report on Investment Responsibility

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Executive Summary

Report on Investment Responsibility

Investment Responsibility at Brown

The concept of investment responsibility begins with the Brown Corporation's legal obligation to ensure the University's long-term financial security. In the last 40 years institutional investors such as universities, foundations, and state government controllers have broadened the definition, including consideration for the social impact of investments and the values they represent. Since the era of Apartheid South Africa, Brown has been a leader in addressing investment responsibility. Brown has several mechanisms in place to address investment concerns, including the Advisory Committee on Corporate Responsibility in Investing (ACCRI). The ACCRI makes shareholder voting recommendations and examines issues of "social harm" in relation to Brown's mission and values. It advises the President, who consults for the Investment Committee of the Corporation, which is ultimately responsible for setting investment policy.

In response to interest from some donors, alumni, faculty, and students, Brown is exploring a potential Social Choice Fund. The fund would allow donors to designate that their contribution be invested with an increased emphasis on social criteria. The possibility of such a fund raises many concerns, such as:

- How would this fund affect donor relations and development efforts?
- Is there enough interest among donors to warrant offering this option?
- How would the fund be structured, and who would oversee it?
- Would it be part of the general endowment and conform to existing endowment policies?
- Would Brown pay a financial penalty in returns?
- How would Brown define "socially responsible," and what would this fund imply about Brown's other investments?

Defining Investment Responsibility is Complex

A Social Choice Fund is just one of many approaches to responsible investing. The larger arena takes into account all practices that conjoin financial performance with broader values. Within this arena, "socially responsible" means many things to many different people. Some examples of criteria for responsible investment include: positive employee relations, community involvement, environmental record, respect for human rights, quality of product, and harmful products (e.g., tobacco and weapons). At Brown it is worth considering that any investment may be responsible because it allows Brown to best achieve its stated mission as an institution of higher learning. Yet Brown has made important social investing decisions in the past, most recently with explicit divestments from tobacco and Sudan. These precedents of taking "social harm" into account are useful as a starting point to consider principles that would guide our approach to responsible investment. Additionally, a multitude of institutional investors recently worked with the United Nations to draft six Principles for Responsible Investment, which could also aid Brown in addressing this complex issue.

Responsible investment does not refer exclusively to divestment and screening. There are alternatives to these “hardline” approaches:

- Positive screens - promoting responsible business by aiming to include certain securities and sectors in a portfolio
- “Best-in-class” - seeking the top performers in all areas of investment – rather than screening out entire sectors and industries, investing with those companies that lead their field based on social criteria
- Shareholder advocacy - engaging management on issues of concern and voting proxies – often productive, often cooperative
- Community Investing - directing capital to areas underserved by traditional financial services; can refer to local projects, or other non-geographic communities

Of these methods, demonstrable impact results most often from shareholder advocacy, community investing, and positive screening. In many cases, sophisticated advocacy through engagement influences company policies and practices. Results can be thought of as “social returns” on investment.

Today it is easier than ever for institutions to align investments with values. Many of the top firms that practice socially responsible investment (SRI) offer a variety of approaches. These include dedicated “two-shop” firms that separately analyze financial performance and social issues in order to create a thorough, uncompromised process for selecting stock. Additionally, they have decades of experience engaging companies in order to promote change. SRI firms could advocate Brown’s concerns in consultation with the ACCRI, allowing Brown to determine how we would like to approach specific issues. However, most firms would not create unique criteria for social asset screens without a minimum investment at the multi-million dollar level. Given those restrictions, if Brown were to develop an SRI program, we would likely need to select an existing SRI mutual fund with acceptable methods and criteria for defining investment responsibility.

Broader View: Trends, Indicators, & Peer Institutions

Trends suggest that interest in socially responsible investing is growing, both generally and among colleges and universities. SRI assets continue to grow market share, and views about SRI issues such as the environment and corporate responsibility may be changing dramatically. Clients surveyed by TIAA-CREF expressed enthusiasm for SRI options but possessed little knowledge about the field. Similarly, Goldman Sachs found support but confusion regarding SRI issues among donors to college and university endowments.

Investment responsibility questions have arisen at several colleges and universities. The most popular mechanism for addressing this topic is the advisory committee, akin to Brown’s ACCRI. Many of Brown’s peers have standing committees which participate in shareholder advocacy to varying degrees, but very few have invested real assets in SRI vehicles. Some religious schools screen out “sin stocks” across the board, and a few institutions such as Hampshire College in Massachusetts and Naropa College in Colorado invest their entire endowments in SRI vehicles. A decade ago Vassar committed \$5 million of its endowment to an SRI fund with success.

Only two schools are known to offer SRI investing as an option for donors. Williams College created the Williams Social Choice Fund in 2002 under heavy pressure from student groups and recent graduates. The fund remains very small and is not an administrative priority. Last year Mt.

Holyoke began an SRI pilot program with a focus on community investing – startup capital for the fund came primarily from Investment Committee members, though if it becomes permanent it would likely result in an allocation of existing assets rather than rely on donations.. In both cases it is too early to determine the quality of financial performance. Some of Brown’s peers have considered introducing an SRI program but ultimately chose not to do so for a few key reasons: difficulty defining “socially responsible;” lack of long-term track records for SRI funds; and a lack of resources for oversight. TIAA-CREF offers its participants a Social Choice Account alternative. Among CREF’s clients that are current or former Brown employees, 18% opt to invest with the Social Choice Account at some level.

Financial Performance

Financial performance is a controversial subject among SRI advocates and critics. The traditional argument of supporters holds that ethical companies will prosper in the long run. Skeptics point to higher management fees and limits on portfolio diversity as signs of a financial penalty for SRI investors. Until recently, a lack of data made quality analysis difficult. In the past five years, more and more studies have come to the conclusion that sound SRI investing will not harm performance; in particular, there is a noted correlation between strong environmental and social records, and company value. However, these conclusions are by no means a consensus; they represent a new and imprecise majority viewpoint.

Statistics show several SRI vehicles that have outperformed their non-SRI benchmarks. For further detail on SRI returns, please refer to the financial tables on pp. 21-22.

Challenges & Concerns

Certain SRI approaches could be detrimental to Brown’s donor relations and fundraising efforts. An aggressive strategy would require time and resources from our Development Officers; alternatively, a simpler program would not require Development to alter its current strategies or create new marketing plans. Brown would have to develop an SRI program that does not threaten the Annual Fund. Defining the types of gifts that would be eligible for a Social Choice Fund, and limiting the fund to appropriate markets would help alleviate these concerns. Additionally, it would be important to distinguish the use and effect of the Annual Fund from an SRI investment program. The two approaches need not be competitive. Research indicates that certain SRI models would not burden Development efforts.

A new SRI program could be difficult to manage. Brown would have to determine the right people to monitor the fund. It would be best to create such a fund within the specially-invested category in order track it independently. The oversight could be handled, and returns tabulated, separately from the general endowment. Based on operational realities, it would be necessary to begin with the stipulation that Social Choice Fund gifts be unrestricted regarding use on campus, pending further review.

There is also the concern that a “socially responsible” fund would create the impression that Brown’s other investments are somehow irresponsible. This is not the case – as stated, Brown has various mechanisms in place to address these issues, and the Investment Office thoroughly reviews all candidates for our investment management. Research shows that institutions including universities that either invest a small portion of assets in SRI, or allow donors to make SRI gifts, do not create negative perceptions. This remains a sensitive issue, and it should not be

overlooked. However, it appears that it would not be cause for alarm. If anything, institutions report appreciation for having made an SRI option available.

Donor Interest

Research on donor interest is inconclusive. Some of the available information is promising, but more study would be required to obtain an accurate gauge of interest levels. If Brown chooses to move forward, a survey or focus group could be very helpful. Potential survey questions follow at the end of this report.

Options

Brown has a broad range of options to pursue, depending on how we choose to approach responsible investing in the future. The options break down into four general categories:

- I. Continue Approach – Continue Current Policies and Practices
- II. Build on the Existing Framework – Augment Role of ACCRI
 - Expand resources and visibility
 - Employ advocacy experts to help Brown engage management on issues of concern
 - Develop a network with other institutions
 - Draft comprehensive investment guidelines
- III. Existing Assets – Limited Program
 - Invest small portion of current assets in SRI vehicle(s)
 - Invest a limited amount in a community financing program
- IV. New Assets – Social Choice Fund
 - Simple Program: choose a top performing SRI vehicle; provide this an option to donors without new strategies or promotion
 - Robust Program: create a marketing approach targeting natural constituencies; invest with a variety of funds for diversification; actively pursue social returns on investment
 - Pilot: create markers for financial performance and donor participation; track success and failure while pursuing the best vehicles for financial and social return

An SRI pilot program could begin operations through the Brown Investment Group, a student organization that manages roughly \$100,000 of Brown's assets as part of the Brown educational experience. Within each program there are opportunities to incorporate various criteria and methodologies, including the following examples:

- Proactive Environmental
Invest in SRI vehicles that actively pursue best environmental performers and opportunities in clean technologies (e.g., Atlas, Winslow Green Growth)

- Engagement
Invest through SRI vehicles that have a history of effective engagement with management and sound advocacy processes
- Screens
Invest with a screening SRI vehicle, or a traditional manager using a research consultant for screens; determine specified screens based on discussion / interest
- Blend
Invest with three to five active managers in various sectors; work with consultants to determine a moderate screening program; invest a small portion of the fund in community investment ventures; actively engage companies (directly or through an SRI firm) on issues of concern determined by ACCRI
- Hedge
Invest with an SRI hedge fund that shorts companies with poor values, screens “sin stocks,” and produces results engaging management (e.g., Green Cay)

Closing

The primary aim of this report is to provide research rather than recommendation. The opportunities presented presume certain commitments from various University bodies – some options would create large commitments, others would require less resources. To implement an aggressive Social Choice Fund approach, Brown would need to make further inquiries regarding donor interest.

It appears Brown may have an opportunity to forge a path that will expand among both universities and general investors. Whether the growth in SRI investment is a passing trend remains to be seen. The potential cost of introducing an SRI program appears very small; the potential cost of dismissing that option could be large. At this point it is unclear how future supporters of University endowments will view this topic, though signs suggest that their interest will increase. Given these indicators, an SRI program could prove extremely successful with minimal risk involved.

Investment Responsibility at Brown

Origins & History

The definition of investment responsibility has evolved over time. First and foremost, the Brown Corporation has a legal obligation to ensure the financial security of our institution in perpetuity.* Through its Investment Committee, the Corporation sets investment policies and strategies in order to fulfill this obligation and realize top financial performance. Over time the definition has broadened to include other considerations. In the past forty years, more universities and institutional investors have begun to weigh the wider impact of financial investments and the values represented by those investments, while continuing to appreciate their fiduciary duty.

Among colleges and universities across the country, Brown has been a leader in the evolution of investment responsibility. Each year the Advisory Committee on Corporate Responsibility in Investing provides counsel to the Administration and the Corporation on matters of concern (more on the ACCRI follows below). The modern era of socially aware investing programs began with the movement to separate institutional investors from Apartheid South Africa in the late 1970's and 1980's. Brown's decision to divest from South Africa played a leading role among Ivy League institutions. Interest in investment responsibilities beyond financial performance has shown a tendency to ebb and flow, dominated by single-button issues such as Tobacco, Burma, Palestine, and Sudan.

ACCRI

The University has mechanisms in place to address the topic of responsible investment. The ACCRI was established during Apartheid to investigate the relationship between the university's mission and its investments. The basic premise of the committee (and of responsible investment in general) is that the values of an institution should be reflected in the way that it invests its money for long-term development. The committee is charged with making shareholder voting recommendations and examining issues of "social harm" while balancing those issues with the mission of the university and its values. In the past the ACCRI has taken the following measures: shareholder voting (proxies), writing a letter of concern, writing a letter threatening divestment, and divestment (to date Brown has not introduced a shareholder resolution). Divestment is the rarest, most extreme action; it requires the full backing of the President and Corporation.

The ACCRI serves as an advisory body to the President. The President consults the Investment Committee of the Corporation, which sets investment policy. There is also a Proxy Committee of the Corporation, which receives input from the ACCRI and other consulting agents. Additionally, Brown has dedicated a

* For more detail, see the Uniform Management of Institutional Funds Act (UMIFA) and the Uniform Prudential Management of Institutional Funds Act (UPMIFA).

limited amount of assets to be invested by students in the Brown Investment Group as part of their extracurricular education at Brown.

Today Brown continues to take the lead as a responsible investor, marked by our decisions to divest from the tobacco industry and from certain companies operating in Sudan. In keeping with the unique Brown spirit, various groups and members of the Brown community have asked Brown to go even further by offering a Social Choice Fund. The fund would allow donors to designate that their gifts be invested with an increased focus on environmental and social criteria. These requests contain enthusiasm but lack the fundamental research and analysis that must be considered before making any decisions. This report addresses the issues surrounding a potential Social Choice Fund as well as broader points of Brown's approach to responsible investment.

Key Concerns

Any strategy incorporating a Social Choice option raises serious concerns. Defining "socially responsible" is a complex problem without a consensus answer – even those firms that practice socially responsible investment have difficulty maintaining a consistent definition. There are also major questions over how such a fund would affect donor relations. A Social Choice option could potentially hurt the Brown Annual Fund, and it could draw our donors' attention away from the fundamental act of supporting Brown. Furthermore, it is not apparent that significant donor interest exists to merit offering or promoting such a fund.

The structure and oversight of any new fund could require further resources and commitments. If the fund were part of our general endowment, certain restrictions would apply regarding minimum initial gifts and the use of those gifts – even the smallest initial contribution for a book fund must meet or exceed \$25,000. Because of these factors and related issues, gifts to a potential Social Choice Fund would need to come with virtually no restrictions on their campus use, once again raising concerns over how effective its promotion could be.

There are also significant concerns over the financial performance of investments that label themselves socially responsible. Brown's Corporation and Investment Officers have a responsibility to maximize investment returns.

Topics of This Report

Topics that we would like to consider include:

- How does Brown currently address responsible investment – what are we already doing?

- What does “socially responsible investment” mean, and how should Brown define it?
- If Brown should choose to enhance our responsible investment approach, what options are available, and what affect would these plans have?
- What might be the impact of a Social Choice Fund on Development, Investment Management, Investment Performance, and Operations?

Defining Responsible Investment: A Complex Question

What does “socially responsible” mean? What constitutes a responsible investment? There is no simple answer to these questions, but it is even more difficult for a University such as Brown. Socially responsible can mean many different things to different people. Religious institutions have formed general definitions by avoiding “sin stocks” such as gambling, alcohol, tobacco, and weapons. Other investors focus on business practices that are sustainable in the long run with regard to society and the environment. Still others believe that a small portion of a portfolio invested in the local community qualifies as socially responsible. Ultimately the definition depends on the user, allowing for literally unlimited possibilities. This has led to a growing concern that socially responsible investing as a discipline lacks focus and purpose. A few longtime SRI experts believe the term “socially responsible” is overused and outdated, with many new firms getting into the SRI arena as a marketing strategy before establishing sound criteria of definition. Among those with many years of SRI experience, Jane Siebels of Green Cay promotes “values based” investing as an alternative title. Regardless of name, the question of defining socially responsible will be a challenge, one that would need to be considered in full should Brown move forward with any program. For more on defining investment responsibilities at Brown, see pp. 25-26 of this report.

It is important to distinguish between a Social Choice Fund as an option, and the larger arena of investment responsibility, which Brown has addressed for many years. As we will see, a Social Choice Fund is a new approach to investment responsibility – peer institutions have rarely considered similar programs and practice them even less. For the purposes of this report, investment responsibility shall refer to all practices that couple traditional fiduciary duty with an institution’s broader values.

The concept of a Social Choice Fund at Brown was sparked in part by recent interest among some donors and alumni. In the past two years, faculty and students have also requested that Brown offer such an option to its donors. The ACCRI drafted a formal proposal last year and continues to look at the

challenges and opportunities a Social Choice option would create. A 2005 petition garnered over 500 signatures from students, parents, and alumni in support of a Social Choice Fund.

Socially Responsible Investing Methods

Integrating personal values and social concerns with investment decisions is commonly known as Socially Responsible Investing (SRI). In essence, any investment strategy that incorporates a second “bottom line” based on values to the primary bottom line of finances falls under this large umbrella. The SRI umbrella then consists of three basic methods: screening, shareholder advocacy, and community investing.

Positive & Negative Screens

Investment screening is the most well-known and widely-used method of SRI investing. It begins with the adoption of social and/or environmental criteria (corporate governance has also taken root as a primary concern in recent years). Based on the chosen criteria, there are negative screens which exclude from a portfolio certain corporate securities, and there are positive (or proactive) screens that aim to include certain securities. Screening investors can take either a positive or negative approach to screens; many investors take both. A positive screening policy may seek to include in a portfolio profitable companies with one or several of the following attributes: respectable employee relations and compensation, strong community involvement, excellent environmental record, respect for human rights, and safe, useful products. Conversely, a negative screening policy may seek to exclude companies with poor records in one or more of these areas.

Best-in-class Approach

Diversification can become a large concern in a negative screening approach. Excluding entire market sectors and industries from a portfolio limits an investor’s ability to produce strong financial returns while minimizing risk. The “best-in-class” screening strategy attempts to curb this affect by seeking the top performers in all areas of investment. In contrast to strict screens, this strategy evaluates companies in a given sector based on the chosen criteria, and then selects those that are the best match. For instance, best-in-class investors concerned about the environmental impact of oil companies could choose to invest in oil companies that demonstrated the best approach to reducing environmental impact and developing clean fuels. Best-in-class investing is a more moderate approach to screens because it recognizes the value of all industries to the portfolio and supports companies that raise the bar in their respective field. Some investors believe that a best-in-class approach to can

actually improve long-term returns to the extent that social, environmental, and corporate governance issues are indicators of company value.

Advocacy

Rather than excluding investments, shareholder advocacy consists of engaging corporate management on issues of concern. Most often this is done by voting proxies, a process that many Universities have recently begun which Brown has done for many years. Many SRI investors believe this is the first step of investment responsibility for endowed institutions. More actively, investors can write letters to a corporation requesting information or recommending policy changes. Often, a group of concerned investors may join together to request a meeting with management on certain issues. The most aggressive form of advocacy is the shareholder resolution, a nonbinding vote among owners of company securities that can be introduced by anyone holding at least \$2,000 in stock. Relatively few universities to date have employed this final strategy of advocacy, though many have considered it. Ultimately, the purpose of shareholder advocacy is to increase a company's transparency or alter its practices.

Community Investing

Both the smallest and fastest growing segment of SRI investments, community investing is capital from investors that is directed to communities underserved by traditional financial services – this can but does not necessarily refer to local communities. It provides access to credit, equity, capital, and basic banking that these communities would otherwise not have. Affordable housing, local opportunities, and successful minority-owned businesses are potential goals of community investing. Community Investment Institutions (CII's), a.k.a. Community Development Financial Institutions (CDFI's), are comprised mostly of banks and credit unions, but also venture capital and loan funds. SRI investors are leading a campaign encouraging institutions to put 1% or more of managed assets into community investments.

Impact of SRI Methods

The various SRI methods provide differing demonstrable impact, or “social returns.” The most direct and visible impact comes from community investing – a small, well-run community strategy can provide clear and comparably fast results for the investor. Similarly, shareholder advocacy is capable of altering corporate policies at a demonstrable rate. Advocacy can be particularly effective when employed by or in consultation with SRI professionals. Last year Calvert, an SRI mutual fund investment firm, filed 21 resolutions that either came to a vote at a corporation's annual shareholder meeting, or were withdrawn by Calvert after generating significant response from management.

Social returns can also be generated by proactively investing in certain companies and sectors, though the impact may not occur in every instance.

While broad investments in companies with strong social track records may not present a visible impact, early investments in venture capital projects can allow new businesses to flourish, particularly in the areas of clean technology and sustainable energy. In specific cases such as these, the connection between an investor's dollars and the social (and financial) reward of the new technology is quite clearly recognized.

Negative screening, the most traditional SRI method, has the least visible impact, and perhaps the least overall social return. Negative screens do not affect stock pricing in any meaningful way. Theoretically, even if a corporation were screened from enough portfolios to diminish its trading price in the short term, the actual market value of the corporation's stock would ultimately remain the same. Large scale screening would effectively create an error in pricing, which other investors would correct by purchasing the stock at its "discounted" price.* However, negative screens do have a public awareness affect, and when noticed it can have an impact on company behavior. It is difficult to determine the point at which negative publicity hurts overall company value. Many companies take their reputation quite seriously, and thus are responsive to screening. A particular TIAA-CREF fund screens out Coca-Cola based on labor and human rights concerns. This has had no real affect on the value of Coca-Cola, but management has begun to react in part to protect its public face.

Services

SRI asset management firms offer various SRI definitions and styles of investment. The top firms tend to maintain "two shops" – one does the financial analysis, while the other conducts social research. The intention of the separate diligence is to provide a rigorous review of financial performance with a thorough assessment of corporate integrity. Many firms are experienced working with clients to create an approach that fits. That product can involve any of the basic SRI methods (screens, advocacy, and community) or a combination. While most SRI managers do not create unique screening programs for investors under \$1 million, research and advising services such as KLD Analytics can create social criteria and provide it for other managers, thus allowing investors to select their own screens while investing with a traditional non-SRI manager. One of Brown's current consultants notes, "The process of creating portfolios that reflect institutional values and goals is less arduous than ever before."

* This is a sub-topic around the larger issue, to be considered later, of whether a negative screen implies a legitimate financial factor relating to economic value, a factor that has not been considered in conventional financial analysis. The point here is that negative screening should not affect the price of stock unless there is a corresponding change in actual value.

SRI in Today's Investment World

SRI Assets Growing

SRI has been a fast growing component of the investment world. The 2005 biannual report from leading trade organization Social Investment Forum tallied \$2.29 trillion* domestically in SRI managed assets, equivalent to one out of every ten dollars under professional management in the United States. The arena of SRI mutual funds is much smaller but continues to increase market share. In 1995 there were \$12 billion managed in SRI mutual funds. A decade later the number had ballooned to \$179 billion, with the largest percentage increases occurring in and around 1999. Still, SRI investing remains a fringe market. The mutual fund market consists of roughly \$9 trillion in total assets.

Traditional Thinking: Trends & Indicators

More recently there is a noted increase in interest from conventional investors and money managers. After the corporate scandals of 2003-5, investors of all stripes have focused greater attention on corporate governance concerns. Views on the state of the environment, energy pricing, and their respective geopolitical effects are changing rapidly. One result of these developments is the growing relevance of what used to be considered "non-financial" concerns in conventional investment analysis. Goldman Sachs recently published a report intended for traditional money managers on the financial risks and opportunities associated with climate change. In the past year General Electric and Walmart have both announced landmark plans to become eco-friendly. Some state pension funds are taking a new approach to fiduciary responsibility by adopting socially responsible investment practices, often under labels such as "long-term" or "sustainable" investments.

In June 2006 more than two-dozen institutional investors (including several state controllers) representing over \$1 trillion in assets called on the SEC to require publicly traded companies to disclose global warming risks in their security filings. Also this past summer, TIAA-CREF opened its new Social and Community Investing Department. In April the United Nations launched the Principles for Responsible Investment. The Principles, developed in conjunction with and supported by institutional investors representing over \$4 trillion in assets, focus on engagement rather than divestment in an attempt to link corporate responsibility with financial decision-making. At the end of August lawmakers in California finalized plans to become the first state to limit all greenhouse gas emissions. When it goes into effect, the law will create the first emissions credit market - one of many tangible effects of climate change on business. These are only a few highlights among many indicators of the increasing interest in the social impact of corporate actions.

* This includes all assets that are managed with social criteria.

Do these events signal a genuine paradigm shift in investment philosophy regarding environmental, social, and corporate governance (ESG) issues? It's too early to say. SRI champions claim that, as a result of recent events, mainstream thinking about global warming and corporate responsibility has fundamentally changed; new perspectives in politics, business, and throughout society require financial analysis to address ESG topics.

Universities: Institutional Investors

The amount of colleges and universities addressing investment responsibility is small but growing. Most of the interest lay in mechanisms for shareholder advocacy: proxy voting is the primary action; the use of letters to management, shareholder resolutions, and divestiture is limited to extreme cases.

Advisory Committees

A standing advisory committee to address shareholder concerns is the most popular and fastest growing method employed by Universities. Many of the oldest committees, including Brown's ACCRI, have their roots in the anti-Apartheid movement. Some of these long-standing committees experienced less activity in the early 1990's. In the new millennium, new committees have arisen at more schools. Some possess more robust levels of resources and sophistication. A network appears to be developing – committees are sorting themselves out, beginning to review the charter and charge of corresponding committees at peer institutions, and increasing consistency.

Researchers are currently working to identify all institutions where these committees exist. The best estimate is that between 15-25 colleges and universities have a standing committee to address investment responsibility (incl. Harvard, Stanford, Yale, Princeton, Columbia, Dartmouth, Williams), with an additional 5-10 schools considering the establishment of a committee. The amount of resources and level of dedication vary greatly from school to school. A typical committee includes faculty and students; often alumni and non-voting investment officers participate as well. Few schools such as Stanford and Columbia dedicate full-time staff personnel; Dartmouth, in addition to publishing the names of its directly held public securities, provides one part-time staff for its committee. The majority of committees employ no dedicated staff. Governing principles and responsibilities differ widely. Stanford's language stands out as a reflection of their thoughtful and sophisticated approach (see Appendix B).

Invested Assets

Beyond the committee as a mechanism for advocacy and proxy voting, there are a handful of institutions investing real financial assets with an SRI focus. Research has found only two that offer donors the option to have specific gifts

invested SRI; several others hold SRI investments which are not directly related to contributions. This report illuminates a broad range of alternatives and approaches, but it does not provide a comprehensive list of institutions with SRI investments. Given the confidentiality of investment strategies and the relative lack of promotion for SRI projects, it is likely that more institutions have SRI investments than is known.

Across the Board:
Comprehensive SRI
Portfolios are Rare

Very few schools apply SRI criteria to their entire endowment. Included among these schools are religious institutions that screen out sin stocks, though in many cases the screening bar is set low. One Quaker school screens only those companies that take over 50% of income from alcohol, gambling, tobacco, and weapons. Naropa College in Colorado, with an endowment of only \$5 million, actively participates in choosing investment managers whose philosophy on social responsibility fits the values of the institution. Hampshire College in Amherst, MA is perhaps the largest school to comprehensively practice SRI across the board.

Minimal Screens

A greater number of schools screen directly held securities based on specific cases (e.g., tobacco, Coca-Cola, companies in Sudan). This action qualifies those accounts as “socially responsible” in the general sense. However, in most instances these decisions come in response to hot-button issues; they do not necessarily represent an ongoing institutional commitment to investment responsibility.

Diversification &
Limited SRI

The safer and more popular approach invests a small portion of a portfolio in SRI vehicles. This approach includes all institutions that take up the “1% in Community” investment challenge. Another example comes from Vassar, which over a decade ago invested \$5 million of its endowment with an SRI vehicle. Vassar views its SRI account as a commitment to principle, a symbol of its investment responsibility awareness, and as a legitimate portion of a diversified portfolio. Schools such as Vassar view a limited SRI investment just like any other portion of a portfolio – donors can specify the use of their gift’s return to a degree, but not the manner in which it is invested.

Donor Option: Social
Choice Fund

The concept of a Social Choice option grew from a desire among donors to have their gifts invested in alignment with their values. At least two institutions currently offer a Social Choice option for donors. Both funds are very new and very small. Williams College created the Williams Social Choice Fund (SCF) in 2002. Most gifts to the SCF come from young alumni and are quite small. While many of the SCF contributors are first-time donors to Williams, there is no evidence yet to demonstrate that the fund expands the base of donors in a meaningful way. In four years the Williams SCF has grown to \$50,000 – the

payout rate is equivalent to the general endowment (roughly 4.5%). SCF returns have no specified purpose and are put to general use each year. Williams invests the SCF with a retail mutual fund at Calvert Group. Marketing for the fund is run by a dedicated though amateur group of alumni volunteers. Development staff approve all promotional materials, which may only go out during July and August, as well as the list of targeted supporters that may be contacted. Though the Williams SCF has surpassed its trial markers and now exists as a permanent fund, the Williams administration does not believe it has added value overall.

A few years ago students made an SRI proposal to the Mt. Holyoke Investment Committee. It focused on community investment, with a willingness to consider the best options available in all SRI avenues. They agreed to form a pilot program, with much of the initial funds coming from Investment Committee members. The program is overseen by students in consultation with administrators, faculty, and financial officers. Their goal is to provide a return equal to or better than the general endowment's over the next three years – all investment vehicles are chosen by the students. Students work closely with development officers as well, identifying and contacting potential donors from Mt. Holyoke's current and past Board members. Currently the students have raised roughly \$30,000, invested in a local Community Loan Fund and a general SRI mutual fund (the New Alternatives Fund). If the program becomes permanent, it would most likely result in a \$1-\$3 million allocation for SRI vehicles from the existing endowment – it is likely that raising new capital would not be part of a permanent SRI program as Mt. Holyoke.

Other Institutions

In addition to the handful of schools applying SRI criteria to real investments, several others have considered adding an SRI component to their portfolio. In 2002 the Finance Office at Columbia, working with an advisory committee, considered moving 1% of its endowment into an SRI vehicle. Ultimately Columbia decided against the plans, based primarily on the following challenges: difficulty reaching a consensus definition of “socially responsible,” and insufficient track records for many of the top SRI mutual funds. At the time Columbia found several large SRI mutual funds with strong returns, but few with a considerable history beyond seven years. Columbia's consideration was not related to a donor program.

In response to donor interest Wesleyan recently considered an SRI option. Like Columbia, Wesleyan decided against moving forward, mainly over concerns for who would oversee the fund and what resources could be dedicated. Today the University of California at Berkeley is reviewing potential SRI investment strategies with an eye towards environmental sustainability. Stanford is

reviewing its policies as well, including new guidelines of corporate responsibility to govern the entire investment strategy.

TIAA-CREF

TIAA-CREF, which primarily manages pension assets for individuals, continues to strengthen its focus on SRI strategies. Alongside launching the new Social and Community Investment Department last month, it conducted a comprehensive survey of its participating investors on SRI issues – CREF concluded that its clients have a growing interest in SRI but very little knowledge about it. Since the early 1990's TIAA-CREF has offered its clients a Social Choice Account. At \$8 billion the CREF Social Choice Account is one of the largest SRI funds in the world, yet it remains a tiny segment of the company's managed assets. 3% of the overall assets managed for Brown employees are designated for the Social Choice Account, while 7% of new contributions go into the SCA. 18% of TIAA-CREF's clients from Brown (nearly 1200 current and former employees) participate in the Social Choice Account.

Financial Performance: Returns on SRI Investments

It is worth noting that the author has no expertise in financial analysis or investment management. Brown employs the most highly qualified professionals to make the best financial decisions and oversee long-term investment strategy for the University. Research and evidence lead to the overwhelming conclusion that sound investments available within the SRI arena can and should produce sound financial returns.

Conventional Arguments

In the past, the central thesis of SRI investors has been that companies with good ethical policies and practices will thrive in the long run, while bad apples will fall victim to scandal, corruption, and unforeseen costs. Their strongest example comes from the Domini 400, a standard SRI index that has consistently drawn level or outperformed the S&P 500 since its creation in 1990.* Traditional investors contend that active management approaches can maximize returns by staying a step ahead of regulations and corporate punishment. Theory holds that a limitation on investment diversity and opportunity will in the end diminish investment success.† It is also thought that fees will run higher with SRI

* Some SRI investors dismiss the relevance of the Domini 400 because it draws broadly from the SRI universe. They argue that because the SRI definition varies from person to person, indexing based on a variety of criteria provides minimal insight into performance. Financial returns, therefore, will vary depending on the SRI definition and approach employed.

† Whether ethical behavior is a legitimate signal of economic value remains a point of contention; if one believes it is not a relevant financial factor, ethical limitations on

managers as a result of the additional requirements of monitoring companies' social impact and behavior. Regardless of the abstract arguments, a challenge to investors wishing to employ SRI practices has been the lack of data for analysis. More precisely, up until the past few years there had been few studies that analyzed SRI performance over a lengthy period of time. SRI funds were simply too young, and data offered inconclusive results.

New Research

Beginning in the new millennium, the amount and relevance of SRI studies have increased significantly. Analysts are able to study more funds with longer track records. While it is beyond the competence and authority of this report to offer final opinions, the author recommends close review of several recent studies that can shed light on the subject of performance. These include the following:*

Orlitzky, Marc, Frank L. Schmidt, and Sara L. Rynes. "Corporate Social and Financial Performance: A Meta-analysis." *Organization Studies*, 24, 2003

- The authors perform a meta-analysis of 52 studies relating corporate social performance with financial performance and find a significantly positive association

Guenster, Nadja, Jeroen Derwall, Rob Bauer, and Kees Koedijk. "The Economic Value of Corporate Eco-Efficiency." Working Paper, Erasmus University, July 25, 2005

- The authors find that environmental information, as contained in the Innovest environmental rating system, had a significant relationship with firm financial performance during the 1996-2002 period

Geczy, Christopher, Robert F. Stambaugh, and David Levin. "Investing in Socially Responsible Mutual Funds." Working Paper, The Wharton School, October 2005

- The authors construct portfolios from SRI mutual funds and the universe of all non-screened funds and conclude there is a discernable cost for SRI investors seeking the highest Sharpe ratio (a measure of risk-adjusted performance)

Stone, Bernell K., John B. Guerard, Jr., Mustafa N. Gultekin, Greg Adams. "Socially Responsible Investment Screening: Strong Evidence of No Significant Cost for Actively Managed Portfolios." Working paper, Marriott School of Finance, Brigham Young University, October 2002

- The authors constructed socially screened and non-screened portfolios and conclude that social screens did not harm performance during the 1984-1997 period.

Repetto, Robert, and Duncan Austin. "Pure Profit: The Financial Implications of Environmental Performance." Washington, D.C.: World Resources Institute, 2000

- The authors use discounted cash flow models and scenario analysis to show that the financial impact of future environmental regulation may be quite material (up to 11% of market value) for U.S. pulp and paper companies

investment practices essentially amount to a reduction in options that is financially arbitrary.

* Available links can be found in Reference section below.

Teoh, Siew Hong, Ivo Welch, and C. Paul Wazzan. "The Effect of Socially Activist Investment Policies on the Financial Markets: Evidence from the South African Boycott." *Journal of Business*, 1999, vol. 72, no. 1

- The authors studied the Apartheid boycott and conclude that despite the publicity and magnitude of divestment, there was minimal effect on financial markets

Bauer, Rob, Kees Koedijk, and Roger Otten. "International Evidence on Ethical Mutual Fund Performance and Investment Style." Working Paper, January 2002

- The authors examined the performance of 103 German, UK, and US screened mutual funds and find no detriment in risk-adjusted performance during the 1990-2001 period (interestingly, they note that older screened funds tend to outperform younger ones)

These reports present only a fragment of the available literature, but the author notes them here in an attempt to present a group of studies representative of the larger body. Some papers maintain that SRI investors will pay a conscious penalty. A leading report produced at Wharton is critical of SRI investments. It argues that investors with a small SRI component will pay a small conscious penalty, while investors with a comprehensive, actively managed SRI portfolio will pay dearly – roughly 3.5% each year.

The majority of these studies reflect a growing view that SRI funds can produce returns that are comparable to similar non-SRI funds; a few go so far as to suggest that SRI will outperform similar non-SRI strategies. There is no way to be certain. Additionally, the chosen criteria and method will have an impact on performance: screening an entire industry could be more detrimental than a best-in-class approach. The author's conclusion that SRI investments can produce strong returns is based on the large volume of studies that share this conclusion, as well as the general trend of growth among experts holding this view. Today the Financial Planning Director at Columbia believes returns are "a non-issue" in their consideration of introducing an SRI vehicle into the portfolio (other concerns exist). It must be stated, however, that the relevant studies are typically produced and financed by those who already believe in SRI principles, creating the possibility of bias in their focus. Perhaps more insight can be gained from the rising interest among traditional investment firms that previously dismissed or ignored the SRI field.

The following tables represent some of the top performing retail SRI mutual funds, as well as one hedged alternative. Many if not all of the mutual fund providers offer products for institutional investors with similar performance and favorable cost structure:

Domestic Equity								
Name	Size	Inception	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.	Since Inception
New Alternatives Fund	\$91.6m	09/1982	16.40%	17.27%	18.26%	4.01%	7.22%	9.33%
Flex-Funds Total Returns Utilities	\$23.0m	06/1995	9.10%	10.62%	18.38%	2.45%	8.90%	9.40%
Winslow Green Growth	\$210.5m	04/2001	-1.08%	2.83%	13.88%	8.87%	18.37%	17.66%
Aquinas Value Fund	\$38.5m	07/2005	5.64%	5.98%	13.60%	4.12%	6.44%	7.77%
Calvert Large Cap Growth A	\$749.6m	10/2000	-3.46%	2.74%	12.30%	4.88%	10.42%	11.62%
Neuberger Berman SRI	\$445.0m	03/1994	0.53%	4.06%	12.19%	7.24%	9.25%	10.21%
TIAA-CREF Social Choice	\$7,900.0m	03/1990	3.40%	3.33%	N/A	4.43%	8.30%	9.78%
MFS Union Standard A	\$21.3m	08/1997	6.55%	8.85%	12.73%	3.42%	5.13%	6.66%
Ariel Fund	\$4,400.0m	11/1986	-0.92%	-4.44%	10.80%	9.72%	14.03%	13.22%
Bench: S&P 500 Index*	N/A	N/A	2.2%	3.44%	9.64%	1.08%	9.95%	N/A

International / Global								
Name	Size	Inception	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.	Since Inception
Calvert World Values Intl. A	\$374.2m	07/1992	9.98%	22.43%	19.41%	8.44%	5.91%	6.36%
Portfolio 21	\$120.3m	09/1999	7.07%	15.49%	15.59%	7.21%	N/A	5.07%
MMA Praxis Intl. A	\$38.6m	04/1997	8.44%	20.75%	17.83%	6.10%	N/A	5.18%
SRI Bench: KLD GC 100 Index†	N/A	7/2005	8.19%	17.36%	N/A	N/A	N/A	19.53%
Non-SRI Bench: MSCI Global Index‡	N/A	N/A	7.05%	14.24%	16.87%	6.63%	7.83%	N/A

Balanced								
Name	Size	Inception	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.	Since Inception
Pax World Balanced Fund	\$2,028.1m	08/1971	2.26%	3.97%	9.87%	4.98%	9.52%	9.35%
New Covenant Balanced Growth Fund	\$312.0m	07/1999	1.39%	3.94%	8.21%	3.83%	6.28%	7.26%
Calvert Social Balanced A	\$510.9m	10/1982	0.71%	2.18%	7.42%	2.46%	5.99%	8.81%
New Covenant Balanced Income Fund	\$122.6m	07/1999	1.06%	2.88%	6.19%	4.13%	5.98%	6.69%

* source: standardandpoors.com data as of July 2006

† source: kld.com data as of 31 July 2006

‡ source: kld.com data as of 31 July 2006

Fixed Income								
Name	Size	Inception	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.	Since Inception
Pax World High Yield Fund	\$71.7m	10/1999	3.13%	4.21%	7.12%	5.99%		4.90%
Calvert Social Bond A	317.2m	08/1987	0.92%	2.07%	5.44%	5.03%	6.57%	7.50%
Aquinas Fixed Income	\$40.3m	07/2005	0.99%	1.36%	3.60%	4.35%	5.50%	5.21%
Parnassus Fixed Income	\$50.9m	09/1992	4.00%	3.71%	3.57%	5.27%	5.92%	6.14%
New Covenant Income Fund	\$534.6m	07/1999	0.52%	1.31%	3.19%	4.24%	5.59%	5.71%

source: socialfunds.com data as of 31 July 2006

Hedge						
Name	Size	Inception	July 06	YTD	2005	Since Inception
Green Cay Emerging Markets	\$62.7m	05/1997	1.9%	8.7%	N/A	30.0%
Green Cay Siebels Multi-Fund	\$33.7m	10/2003	0.7%	9.8%	4.7%	24.8%

source: Green Cay

Challenges and Concerns

Beyond financial performance, the thought of investing assets in SRI (whether through a small portion of the University's financial assets, * a Social Choice Fund as an option for donors, or a combination of both methods) raises a great deal of concerns for Brown, with a complexity that might not be expected. Most critically, we would need to address concerns related to development and donor relations, investment management, gift policy, broader perceptions, and accounting logistics. The following issues deserve serious consideration, though some are more pressing than others. The discussion here is intended to inform Brown's position rather than provide definitive solutions.

Donor Relations

A major concern of any Social Choice Fund would be its potential affect on donor relations and other areas of Brown's fundraising efforts. We could perhaps find that young alumni comprise a majority of its contributors. Currently the Brown Annual Fund focuses on attracting these young alumni and creating a tradition of giving, and in the short term a Social Choice Fund could easily work alongside the Annual Fund to reach out to new donors. The trouble would arise in the long term, when today's young alumni become the Annual Fund's leading organizers and contributors. Brown could not afford our Annual Fund leaders to be dedicated instead to an invested Social Choice Fund. For every dollar taken from the Annual Fund, a Social Choice Fund would need to raise twenty dollars in order to maintain the level of current operations.

To approach this issue, Brown would most likely begin by distinguishing between the purpose and effect of the Annual Fund (direct use in the University operating budget without stock investment), and an invested Social Choice option. Last year a small group of seniors considered withholding Annual Fund gifts to protest the absence of a Social Choice option, even though the two areas are asymmetrical – from an investment standpoint, there can be no objection to the Annual Fund. Supporters would have to be made aware of this point.

Proper coordination and marketing could greatly diminish concerns related to the Annual Fund. A Social Choice Fund would not receive nearly the level or breadth of promotion enjoyed by the Brown Annual Fund. Development staff would have to coordinate plans to identify natural constituencies for a Social Choice Fund – Environmental Studies graduates are perhaps a likely area of focus. Additionally, other Social Choice advocates have suggested that follow-up material for any Social Choice donors include information that distinguishes the Annual Fund and stresses its importance to Brown. It's possible a Social Choice option could help in the promotion of the Annual Fund, potentially with

* Endowment and / or working capital.

individuals that would not be reached otherwise. It appears that this is a delicate issue, but one that could be resolved.

There is also the consideration of development resources. Would an SRI program require Development Officers to create and implement a new marketing plan? How would it affect existing marketing efforts? The answer: it depends on the SRI program in place. An aggressive SRI fund could require a serious dedication of time and resources. However, it would also be possible to create a fund less pronounced and less visible. While such a program would likely garner less funding, it would offer donors the option to participate without putting a burden on the Development Office. In this sense, a Social Choice option would be available for Development to promote at its own discretion on a case-by-case basis.

Investment
Management

From a management standpoint SRI investments would be challenging. The Investment Office is not designed to promote social agendas, though it is possible that we currently invest with “socially responsible” vehicles based on financial considerations. Short of moving a portion of the endowment into an SRI program, it would be prudent to separate any SRI trial from the endowment in order to simplify its oversight as we learn more. Payout could mirror the general endowment – as it does at other institutions with an SRI program – or Brown could wait to watch its performance before determining payout policy. Would the Investment Office oversee an SRI investment? It would add weight to the workload; at the very least, Brown would need to find resources to support the Investment Office. Perhaps the investment selection could parallel the two-shop approach of several SRI investment firms: a body such as the ACCRI would focus on determining social criteria, then the focus would shift to an investment officer to select appropriate SRI funds. If necessary, the Investment Office’s work could be designated as advisory in nature, diminishing the potential risk to the office if performance did not meet expectations.

Perception

How would a new SRI program be perceived? Creating a “socially responsible” segment in Brown’s portfolio, whether as a small portion of the endowment or donor option, could indicate that our other investments are somehow managed “irresponsibly.” This is not the case, and as we move forward we would have to make this clear. Brown currently conducts responsible operations and has mechanisms in place to address our investment responsibilities. Our Investment Officers thoroughly review all candidates for asset management, though their task could be made easier if defined criteria of investment responsibility were in place.

Those institutions that either offer a Social Choice option or invest a small portion of assets in SRI vehicles report no concern from constituents that their other investments are irresponsible. They also report no direct concerns from supporters regarding the performance of these funds, though certainly those concerns exist – contributors frequently ask about the performance of the general endowment. In this sense, supporters might be more concerned by a program that would incorporate SRI among our existing assets, rather than a model based choice.

The issue of perception remains relevant and should not be overlooked. In any promotional materials, a Social Choice Fund would have to present itself as an option for individuals and portray the general investment strategy in the positive light that it deserves. Research suggests that a small SRI program would not create negative perceptions. Where available, individuals that choose not to participate in SRI funds do not voice disapproval; in fact, TIAA-CREF's recent survey found surprisingly high levels of interest in the company's Social Choice Account among clients that do not participate in the fund (many also stated that they were previously unaware of the fund's existence). If anything, institutions report a positive impression for "going the extra mile" and providing a Social Choice option.

Defining investment responsibility is perhaps the most difficult challenge. Brown is a diverse and open-minded community, and outlining our investment strategy with ethical criteria is an commitment to Brown's values. At the same time, the qualities that make us a leader also make it extremely difficult to reach consensus. Brown's constituents represent all areas around the globe and every imaginable sector of business. How can we as an institution rule out certain business fields while maintaining our commitment to a broad spectrum of thoughts and values? The question is easier at religious institutions or foundations with a specified goal of public service. In those cases, certain investments are clearly antithetical to the mission of the institution. For us the situation is more complex, and that is a good thing. The fact that Brown can consider these issues and all the perspectives involved further demonstrates the excellence of a Brown experience. Thus, many of Brown's supporters hold the legitimate belief that any investment in Brown is responsible because it will be put to such good use at our University. While our multitude of diverging views makes this issue more challenging, it also allows us to address investment responsibility in a unique way. We should continue to examine what we as an institution consider responsible investing.

Selecting appropriate and sound criteria for responsible investing is not easy. Even the leading SRI firms with the most experience in the field have difficulty

reaching a consistent position that is represented by their investments. An example that could affect Brown: Coca-Cola has recently been screened by many SRI investors; at the same time, the company's products are served in Brown dining halls. Where does one draw the line, and how bold is the stroke? Before the corporate scandals of 2003, many SRI funds held Enron stock as a prized possession because of the company's leading investments in green technologies. These cases represent a few of the most problematic issues that could arise.

Without discounting the challenges, it might be helpful to consider where Brown might begin if we choose to move forward. This University has taken a strong stance on public health and human rights through our divestment decisions on tobacco and Sudan; it could prove helpful to use this precedent as a starting point. The U.N. Principles for Responsible Investment could also serve as a model. Ultimately, a commitment to sustainability in the environment and in business methods would be a reasonable aim. Specific social issues, though they are critical, are even more complex and prone to politicization.

In any SRI approach, the methods are equally as important as the criteria. Outright negative screening is a volatile approach. Alternately, Brown could focus on engaging management rather than screening companies. Screens can be less effective than advocating for changes within the company. A member of the Brown community that supports or works for a controversial company would be less opposed to a program if it were focused on engagement rather than divestment (engagement intends to increase company value in the long run). Additionally, we could consider the positive screening process: promoting investment in sectors and companies that have a positive impact on business and society (e.g., companies moving towards eco-friendly practices, clean or "green" technologies, sustainable energy, etc.). Finally, the best-in-class approach would prevent any divestment from entire industries.

Donor Interest

A critical question lies with Brown's alumni and supporters – would the right SRI model attract more contributions? Before any plans for a Social Choice Fund progress, we would be wise to learn more about the level of donor interest among our current and future contributors. Trends and reports suggest an overall budding interest in SRI issues, but these need to be confirmed and reinforced by the Brown community. In 2005 Goldman Sachs surveyed contributors to University endowments, concluding that donors cared deeply about investment responsibilities but expressed confusion as to how Universities should address them.

A small handful of alumni have requested that their gifts be invested in alignment with certain social and environmental principles. Unfortunately these instances do not provide a comprehensive picture of our alumni's opinions about this topic.

The most likely avenues for gauging donor interest are surveys and focus groups; suggested survey questions appear at the close of this report. The survey approach is fast, simple, and reaches a larger audience, but focus groups run by professionals could provide insights unattainable on the page. Regardless of the method chosen, a better grasp of donor interest would be essential if we decide to move forward with Social Choice options.

Brown's Options

Equipped with the background, we have a better sense of the SRI options available to Brown, represented by four broad categories: 1) Continue the current approach; 2) Build on the existing framework; 3) Invest through existing financial assets; and 4) Invest new assets based on donor choice. The first two categories focus mainly on shareholder advocacy in a limited fashion, while the latter pair reflect a more dedicated, more aggressive approach to responsible investing.

- Continue Approach
 - Continue Current Policy – Support existing policies and practices.

- Building on the Existing Framework
 - Augment role of the ACCRI – Clarify and strengthen the charge of the ACCRI. Could also be used to engage management on critical issues with greater frequency and purpose. Raise awareness of this committee and its work, both on campus and with Brown alumni. These steps would allow Brown to harness the force of our existing investments. Some paths towards these ends could include the following:
 - Expanding resources – Provide staff to research proxy voting, anticipate issues, and connect with mirroring committees at other institutions
 - Employing advocacy experts - In addition to screening and investing, many SRI firms are experienced and effective engaging corporate management on issues that concern their clients. It may be possible for Brown to work with such a firm (Calvert, Domini, Walden) without investing in their asset management. Their communications experts,

working in consultation with the ACCRI, would further empower Brown as a responsible investor.

- Developing a network - Current networks exist among institutions concerned with responsible investment, but they are outdated and ineffective. Brown could easily help develop a standing network of advisory committees or concerned universities, which would provide all members with quicker access to rising issues and information regarding policies at peer institutions.
- Drafting comprehensive investment guidelines – Provide guidelines on our own responsibilities for our investment officers and outside managers. A sophisticated and comprehensive set of guidelines to inform the overall investment strategy would bring clarity to those that deal with these issues each day; it would also create a reference point for issues that arise in the future. The process for drafting these guidelines would take time and effort but ultimately make Brown more aware of its own investment philosophy. The U.N. Principles for Responsible Investment could serve as a valuable source for beginning this process.

Existing Assets

- Limited Asset Program – Another option would follow the general approach taken at Vassar: invest a small portion of existing financial assets in one or more SRI vehicles. Because cost structures benefit institutional investors, the recommended minimum amount for this program would be \$1 million, though a pilot program could begin with less. This decision could be advertised to targeted Brown constituents at the discretion of the administration, but it would not create a separate SRI account for donors. Should Brown decide to press forward full-steam, a muscular model of this approach would begin by investing \$5 million with four or five managers in different sectors (e.g., \$1.25 million each in a small cap, large cap, growth, and emerging market fund). If a limited portfolio program begins as a pilot, it would not be considered an official part of the endowment, thus avoiding certain concerns regarding diminished returns; likewise, a pilot program would allow Brown to post specific markers based on performance in order to gauge its success before making it a long-term fixture in the portfolio. If at any point Brown would choose to discontinue the fund, its assets could be recycled into the general assets of the University.
- Percentage in Community Investing – A similar limited asset option would commit Brown to the community investment challenge. Investing between 0.25% - 2.0% of the endowment in community ventures would represent a moderate first step into the SRI arena, while simultaneously producing fast and visible impact (“social returns”).

- Social Choice Fund – Without an investigation into the level and style of donor interest that may exist, it is difficult to construct models for a Social Choice option to be funded by contributions. That said, we can anticipate certain criteria that might govern a fund of this kind.

A Social Choice Fund could begin as a pilot program. This initial period would allow those overseeing the development and performance of the fund to test various approaches while learning about the fund's strengths and weaknesses. The pilot phase would include markers for financial performance as well as contribution levels. It would make sense to track early donors in order to determine the fund's key supporters, as well as any effects the new program might have on other areas of development. A pilot program would also begin as a separate fund outside the endowment, for reasons similar to those described in the section above. If at any point Brown would choose to discontinue the fund, its assets could be recycled into the general assets of the University.

A Social Choice Fund would be most effective – for Brown and beyond – at a high level. This alternative would require significant startup capital from either major contributors or from Brown's existing resources. If the program were to start with nickels and dimes, it would most likely attract nickel and dime gifts. Below a certain level (perhaps in the neighborhood of \$500,000), not only would financial returns be diminished (based on investor pricing structure), but the level of impact at Brown and beyond would not be worth the effort to create and manage the fund. This reflects our current approach to endowment giving: any new endowment requires a significant initial gift, after which the endowed fund can accept donations in any amount – the unique aspect of a Social Choice Fund would be the contributor's preference for the gift's investment rather than its use on campus. Brown would want the use of the fund's income to be unrestricted.

Alternatively, Brown could simply offer a Social Choice Fund as an option to endowment donors, without requiring a great deal of resources and commitments. After determining the necessary level of an initial gift, Brown could select an SRI manager or mutual fund possessing the best combination of social criteria and financial performance. Essentially, we would offer donors the option to have their gift be invested in that fund, with the income it generated likely going towards general use at the University.

If Brown were to pursue testing a Social Choice Fund program, the following steps could serve as a useful model moving forward, dependent upon donor interest:

- Develop initial funding from identified donors and / or University resources
- Create markers to determine ongoing success and failure based on financial performance, contribution levels, and resources required for support and oversight
- Review of performance and management by Investment Office in consultation with ACCRI; ACCRI responsible for fundamental analysis of social criteria and impact
- Identify potential donor bases and natural constituencies; primary work from ACCRI and Alumni Relations, working closely with Development Officers
- Identify one SRI point-person in every graduating class to coordinate future communications and field questions
- Develop parallel academic opportunities: support student projects and paths exploring various aspects of Brown's SRI program (donor data, fund performance, relationship of SRI issues to business value, etc.)

The above model avoids specifics on the actual product of asset investment. Potential approaches for vehicle and methodology include:

- Proactive Environmental
Invest in SRI vehicles that actively pursue best environmental performers and opportunities in clean technologies (e.g., Atlas, Winslow Green Growth)
- Engagement
Invest through SRI vehicles that have a history of effective engagement with management and sound advocacy processes
- Screens
Invest with a screening SRI vehicle, or a traditional manager using a research consultant for screens; determine specified screens based on discussion/interest
- Blend
Invest with three to five active managers in various sectors; work with consultants to determine a moderate screening program; invest a small portion of the fund in community investment ventures; actively engage companies (directly or through an SRI firm) on issues of concern determined by ACCRI

- Hedge
Invest with an SRI hedge fund that shorts companies with poor values, screens “sin stocks,” and produces results engaging management (e.g., Green Cay)
-

It is also worth noting that Brown could run a pilot program through the student-run Brown Investment Group, currently investing roughly \$100,000 in University assets as part of the educational experience provided at Brown. Even in this case, it would be necessary to devote additional resources in order to obtain any meaningful information. It appears that the students would be interested in working on such a project with staff from any and all related offices.

Closing Remarks

This report offers an introduction to the complex field of investment responsibility and demonstrates the wide variety of options available to Brown. The primary aim of this report is to provide research rather than recommendations. All opportunities presented presume certain commitments from various University bodies, and always the Administration must consider how best to utilize available resources. Regarding the creation of a Social Choice option for donors, it seems clear that further research regarding donor interest would be necessary before moving forward.

It appears Brown may have an opportunity to forge a path that will expand among both universities and general investors. Of course, that opportunity may be just a passing trend – one can never be certain until the opportunity has gone by. The potential cost of introducing an SRI pilot program appears very small; however, the potential cost of dismissing that option could be large. Whether SRI investments will take hold is not entirely clear; if they do, universities will most likely play a critical role in developing SRI principles. At elite campuses across the nation, SRI issues are being taken up in a variety of forms; the student activists that questioned investment ethics in South Africa will soon be leading endowment contributors at institutions across the nation; more generally, double- and triple-bottom line investments have continued to grow market share in the universe of professionally managed investments. Signs suggest that SRI interest remains messy but growing. Environmental issues will become more and more important in conventional financial analysis, especially those related to climate change and energy. It would not be wise to plunge into the SRI world; fortunately, Brown’s past commitments and existing resources would make it relatively safe to test the waters. Given these indicators, Brown’s leadership

through an SRI pilot could prove extremely successful with minimal risk involved.

Appendix A: Survey

Brown University Student Research
Survey – Brown's Endowment

1. Year of Graduation (Decade):

- 1960's
- 1970's
- 1980's
- 1990's
- 2000's

2. Gender (Optional):

- Female
- Male

3. Annual Household Income (Optional): (please advise on income/net worth)

- Less than \$40,000
- \$40,000 - \$100,000
- \$100,001 - \$250,000
- More than \$250,000

4. Region:

- Northeast
- Atlantic
- Midwest
- South
- West
- International

5. Have you made a gift to Brown in the last 5 years?

- Yes
- No

➤ If so, check all that apply

- Current Use (e.g., Annual Fund, BSFA)
- Endowment
- Other Gifts

\$ Cumulative Amount

6. Do you agree with this statement: the Brown endowment is well managed to produce strong financial returns.
- Strongly Agree
 - Agree
 - Disagree
 - Strongly Disagree
 - Don't Know / Unfamiliar
7. Do you agree with this statement: the Brown endowment is managed within reasonable boundaries of social responsibility.
- Strongly Agree
 - Agree
 - Disagree
 - Strongly Disagree
 - Don't Know / Unfamiliar
8. Did you know that Brown has a standing Advisory Committee on Corporate Responsibility in Investing (ACCRI), which is responsible for addressing issues of Brown's investor responsibilities?
- Yes – I am familiar with it
 - Yes – I've heard of it but don't know much about it
 - No
9. Should Brown be more active than it already is addressing issues of investor responsibility?
- Yes
 - No
 - Don't Know
10. Is a contribution to Brown a socially responsible investment in and of itself?
- Yes
 - No
 - Don't Know
11. Do you believe that making socially responsible investments deserves some weight in the management of Brown's endowment?
- No; investments by legitimate fund managers aiming to maximize returns at reasonable risk require no additional qualifications.
 - Social concerns deserve some weight if no appreciable sacrifice of returns is involved
 - Social concerns deserve some weight even if some returns are foregone, but returns still take precedence
 - Social concerns and financial returns are both deserving of weight

12. Please rate each of the following objectives for the Brown endowment between 1 and 5 (1 = very high, 5 = very low):

- Engaging companies in the portfolio about issues that concern Brown
- Financial Performance
- Investing in the local community
- Promoting business activities aligned with Brown's values
- Screening investments that go against Brown's values (e.g., Tobacco)

13. Check those that apply: criteria required for a responsible investment include:

- Addressing issues of unfair labor practices
- Addressing issues of pollution and global warming
- Addressing issues of corporate governance
- Addressing issues of a company's human rights records
- Creating financial opportunities in underprivileged areas
- Improving financial ability to serve the Brown community
- Promoting sustainable business & alternative energy / clean technologies
- Screening for alcohol, gambling, and / or tobacco
- Screening for firearms and military weapons

14. Select one: what is more important for the Brown endowment:

- Producing strong financial returns
- OR
- Making socially responsible investments

15. Should Brown offer donors the option to designate their gift for a separate fund that is invested based on social and / or environmental factors?

- Yes
- No
- Don't Know

16. Should Brown offer this fund as an option, even if it diminishes Annual Fund gifts intended for current use?

- Yes
- No
- Don't Know

19. If this fund existed, would you contribute to it?

- Yes
- No
- It would depend on the social / environmental factors
- Don't Know

20. If this fund existed, how would it affect the overall amount of your giving to Brown?

I would give less

It would not affect my giving

I would give more

Appendix B: Stanford Statement

STANFORD'S STATEMENT ON INVESTMENT RESPONSIBILITY October 15, 2002 (supersedes all previous statements)

[Structure](#) | [Operation](#) | [Endnotes](#)

Commitment

1. PREAMBLE

1.1

The primary fiduciary responsibility of the University Trustees in investing and managing the University's endowment securities is to maximize the financial return on those resources, taking into account the amount of risk appropriate for University investment policy. However, when the Trustees adjudge that corporate policies or practices cause substantial social injury¹, they, as responsible and ethical investors, shall give independent weight to this factor in their investment responsibility policies and proxy voting practices related to corporate securities.

1.2

The authority to take ethical factors into account when setting investment responsibility policies and proxy voting practices addressing endowment securities derives primarily from the stewardship responsibilities which attend the ownership of endowment securities. The policies and procedures in this Statement recognize that there is no practical way for the University to avoid having an effect on the outcome of issues involving corporations in which it has invested, and that, consequently, the effect should be as thoughtful and considered as possible.

1.3

However, decisions regarding investment responsibility frequently are controversial, and the Trustees recognize that they may not speak for the University on issues of public policy, except those that directly impinge upon Stanford as an educational institution. Therefore, all actions taken pursuant to these policies and procedures should be understood as judgments by the Trustees made in discharging their duties as an investor in corporations, and such an action should not be interpreted to represent the view of all members—or of any particular member—of the University.

Process

2. POLICY GUIDELINES

2.1

Selection and Retention of Endowment Securities

a)

Maximum economic return shall be the primary criterion for the selection of the University's endowment securities.² Maximum economic return shall also be the primary criterion for the retention of the University's endowment securities except in the cases covered by paragraph 2.3 In both cases, when assessing the expected return on the securities of a company, the investment manager or advisor shall take into consideration any substantial social injury caused by company activities which in his or her opinion is likely to have a negative impact on the value of the investment.

b)

In no event will an endowment security be selected or retained for the primary purpose of thereby encouraging or expressing approval of a company's activities, or alternatively, for the primary purpose of placing the University in a position to contest a company's activities.

2.2

Exercise of Shareholder Rights

a)

Proxy Voting Guidelines: From time to time Trustees will review, update and/or develop proxy voting guidelines that address issues of substantial social injury by companies in which the University invests.

b)

Voting: On any shareholder resolution involving social issues, the Trustees shall: (1) normally vote according to existing University Investment Responsibility Proxy Voting Guidelines, (2) vote to "abstain" when no Proxy Voting Guidelines exist, or (3) "not vote" in cases where SCIR has determined that "not voting" on a resolution is in the best interest of the University.

c)

Representations: When the Trustees conclude that the company's activities cause substantial social injury, they may make formal or informal representations to corporate management to explain or reinforce their position on proxy issues and on issues where no proxy is presented.

2.3

Divestment Where the Trustees conclude that a company's activities or policies cause substantial social injury, and the Trustees conclude that:

- a) a desired change in the company's activities would have a direct and material effect in alleviating such injury,
- b) the Trustees have exhausted their practicable shareholder rights in seeking to modify the company's activities to eliminate or reduce the substantial social injury thereby caused,
- c) the company has been afforded the maximum reasonable opportunity to alter its activities,
- d) no alleviation of the substantial social injury by the company is likely within a reasonable time; the Trustees will consider the alternative of not continuing to exercise their shareholder rights under the foregoing paragraphs, and may, when such an action is consistent with their fiduciary obligations, instead sell the securities in question within a reasonable period of time.

2.4

Exceptions

If the Trustees conclude that a specific Trustee action otherwise indicated under these Guidelines is likely to impair the capacity of the University to carry out its educational mission (for example, by causing significant adverse action on the part of governmental or other external agencies or groups, or by causing deep divisions within the University community), then the Trustee need not take such action.

Structure

3. THE ADVISORY PANEL ON INVESTMENT RESPONSIBILITY

An Advisory Panel on Investment Responsibility (APIR)³ shall advise University trustees and officers and make recommendations to the President (or his designee) and the Trustees' Special Committee on Investment Responsibility (SCIR) concerning investment responsibility matters.

3.1

Specific Duties

The APIR has been designated as the University body responsible for implementation of the policy guidelines on investment responsibility. The Panel shall be advisory to the SCIR and the President, with the following functions:

1. Consider proposals from the University community regarding specific investment responsibility concerns, first determining whether or not there is an allegation of substantial social injury;
2. Monitor trends and activities in investment responsibility that have an impact on educational institutional investors;
3. Conduct research, update company files, and provide analyses when appropriate;
4. Make recommendations to the SCIR on how to vote proxies and on any new issues which may warrant attention;
5. Respond to specific requests from the SCIR or President.

3.2

APIR Membership

- a) There is hereby established an Advisory Panel on Investment Responsibility to be composed of twelve voting members including: four members of the Academic Council nominated by the Faculty Senate Committee on Committees; four students (two undergraduates, two graduates) nominated by the Student Senate Committee on Nominations; two alumni representatives appointed by the President in consultation with appropriate University representatives; two staff members appointed by the President. The Chief Executive Officer of the Stanford Management Company (or his/her designee) shall serve as an ex-officio member. The CEO may vote if there is a tie.
- b)

Members shall be appointed for at least two years and may be reappointed. Members shall serve until their successors take office. In the event of a vacancy caused by death, disability, or resignation of a member, the President of the University shall appoint a replacement, who shall serve until the expiration of such member's term and until a successor takes office.

c)

The APIR Chair shall be appointed by the President of the University.

3.3

Organization

a)

The APIR shall meet on call of the Chair and no less than twice during the academic year. At the Chair's discretion, the APIR may also conduct business via conference call.

b)

The Chair is responsible for setting agendas. The Chair shall take as an agenda item any matter referred by the Board of Trustees, the President, or the Chief Executive Officer of the Stanford Management Company. The Chair shall also take as an agenda item any matter submitted by two or more members of the APIR. In addition, the APIR will consider written proposals from any member or group of the Stanford community for possible inclusion on the agenda. The Chief Executive Officer of the Stanford Management Company shall, whenever practicable, give reasonable notice to the APIR of any matter pertaining to the University's endowment securities which could be within the purview of the APIR.

c)

The APIR may ask individuals, whether or not connected with the University, to attend its meetings as consultants or otherwise provide advice and information.

d)

The Stanford Management Company shall be responsible for providing staff and secretarial assistance to the APIR.

e)

To assist in its review of social responsibility proxy issues, the APIR will have access to reasonably available data compiled by or on behalf of the University on companies currently held as pooled⁴ endowment securities.

f)

The APIR may establish committees of its members to serve at the pleasure of the APIR.

g)

The APIR may establish rules of procedure, subject to the provisions of this statement.

Operation

3.4

Operations

a)

Within the Guidelines established under Section 2, the APIR shall examine issues of investment responsibility involving the University's endowment securities and make appropriate recommendations for action by the Trustees. Such recommendations shall take into consideration the following factors: (1) the facts and information the APIR has gathered in its study of the issues; (2) the opinions expressed within the Stanford community regarding the issues; and (3) the legal and financial impact of the recommended action.

b)

If the APIR determines that a substantial issue arises within the Guidelines established under Section 2, the APIR may, at its discretion, sponsor or encourage the convening of occasional local public meetings or forums to assess the views of members of the Stanford community concerning such an issue.

c)

All recommendations by the APIR to the Trustees shall be the result of the following two-step process. (1) When the APIR receives from any member of the University community, including a member of the APIR, a written request for action under this Statement, the APIR shall first determine whether the request, on its face and assuming its factual accuracy, appears to constitute an allegation of substantial social injury against a firm in which Stanford has a direct investment. Such a determination must be made before an allegation may be considered further, and the determination shall be made only by an affirmative majority vote, a quorum being present. If the APIR fails to make such a determination, it shall advise the individual making the request that no further steps will be taken unless persuasive additional evidence or arguments are presented to the APIR. (2) If the APIR by this determination agrees to consider the allegation further, it shall investigate and analyze the allegation in whatever manner it deems appropriate and may then make a recommendation to the Trustees, provided that the recommendation is first approved by the majority of the APIR's members present. Six out of twelve voting members constitute a quorum. Recommendations may

call for voting Stanford's shares in shareholder resolutions, making representation to management, divestment of securities, or other action as the APIR deems appropriate.

d)

The APIR shall make its recommendation in writing to the Trustees and the President. The recommendation shall be accompanied by factual findings and an analysis of the question involved. Voting members of the APIR who hold dissenting or divergent views may submit them in writing with the APIR's recommendation. The recommendation, together with accompanying materials, may, at the discretion of the APIR, be made available for public distribution.

e)

Where the APIR indicates a desire to deliberate on a proxy or divestment issue, the Trustees will, where practicable, await a timely recommendation from the APIR before taking action.

f)

The Trustees will make decisions on all recommendations for action under this policy. Should the Trustees decide not to accept a recommendation of the APIR, the APIR will be informed of the reasons for the Trustees' actions.

4. OTHER MATTERS

4.1

Nothing in this Statement shall be deemed to delegate the Trustees' investment responsibilities, or any part of them, to the APIR or any other person or body.

4.2

The Trustees may amend this Statement from time to time.

4.3

The APIR may, from time to time, submit recommendations to the Trustees for amendments to this Statement.

Top of document

Endnotes:

1

Substantial Social Injury: With regard to corporate behavior, substantial social injury is defined as the injurious impact on employees, consumers, and/or other individuals, or groups resulting directly from specific actions or inactions by a company. Included in this category are actions that violate, subvert, or frustrate the enforcement of rules of domestic or international law intended to protect individuals and/or groups against deprivation of health, safety, basic freedoms or human rights. Only actions or inactions by companies that are proximate to and directly responsible for identifiable social injury will be regarded as falling within these guidelines.

For the purposes of these Guidelines corporate activity that creates a potential for social injury to occur shall not itself be construed as socially injurious. Similarly, for the purposes of these guidelines, social injury shall only in unusual circumstances include the act of doing business with other companies which are themselves engaged in socially injurious activities.

Under this policy, allegations of substantial social injury will be examined on a case-by-case basis using the best available evidence and allowing parties to the allegation reasonable time to develop and disseminate that evidence.

2

Endowment security: an equity security held for investment as part of the University's endowment funds or other funds (such as loan funds, building and other temporary funds, reserve funds, and current funds) in which securities are held for investment.

3

Previously the Commission on Investment Responsibility (CIR).

4

An investment pool is a commingled group of investment funds and assets. The vast majority of the University's endowment assets are retained in commingled pools.

The Principles for Responsible Investment

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1 We will incorporate ESG issues into investment analysis and decision-making processes.

Possible actions:

- Address ESG issues in investment policy statements
- Support development of ESG-related tools, metrics, and analyses
- Assess the capabilities of internal investment managers to incorporate ESG issues
- Assess the capabilities of external investment managers to incorporate ESG issues
- Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis
- Encourage academic and other research on this theme
- Advocate ESG training for investment professionals

2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

Possible actions:

- Develop and disclose an active ownership policy consistent with the Principles
- Exercise voting rights or monitor compliance with voting policy (if outsourced)
- Develop an engagement capability (either directly or through outsourcing)
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights)
- File shareholder resolutions consistent with long-term ESG considerations
- Engage with companies on ESG issues
- Participate in collaborative engagement initiatives

- Ask investment managers to undertake and report on ESG-related engagement

3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Possible actions:

- Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative)
- Ask for ESG issues to be integrated within annual financial reports
- Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact)
- Support shareholder initiatives and resolutions promoting ESG disclosure

4 We will promote acceptance and implementation of the Principles within the investment industry.

Possible actions:

- Include Principles-related requirements in requests for proposals (RFPs)
- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate)
- Communicate ESG expectations to investment service providers
- Revisit relationships with service providers that fail to meet ESG expectations
- Support the development of tools for benchmarking ESG integration
- Support regulatory or policy developments that enable implementation of the Principles

5 We will work together to enhance our effectiveness in implementing the Principles.

Possible actions:

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning
- Collectively address relevant emerging issues
- Develop or support appropriate collaborative initiatives

6 We will each report on our activities and progress towards implementing the Principles.

Possible actions:

- Disclose how ESG issues are integrated within investment practices
- Disclose active ownership activities (voting, engagement, and/or policy dialogue)
- Disclose what is required from service providers in relation to the Principles
- Communicate with beneficiaries about ESG issues and the Principles
- Report on progress and/or achievements relating to the Principles using a 'Comply or Explain'¹ approach
- Seek to determine the impact of the Principles
- Make use of reporting to raise awareness among a broader group of stakeholders

¹The Comply or Explain approach requires signatories to report on how they implement the Principles, or provide an explanation where they do not comply with them.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles.

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