

## Development of a Framework to Guide Evaluation of Investment Policy Requests

### BACKGROUND

During its October 2016 meeting, the Board of Trustees was presented with amendments to the Public University Fund (PUF) Investment Policy that would divest the fund of current fossil fuel-related securities and restrict future investment of fund assets into fossil fuel-related securities. After much discussion, the Board voted to postpone until January 2017 action on amendments to the PUF policy. Prior to the January meeting, the Board requested that the Finance & Administration Committee develop and recommend a framework to the Board to guide its consideration of requests for investment policy changes.

### DRAFT FRAMEWORK

The general concept of responsible or ethical investing has a long history and has gained momentum in recent decades. An April 2015 Commonfund Study of Responsible Investing found that, of 200 U.S. colleges and universities surveyed, 26.5% reported formally including some type of responsible investing practice in their policies. For public institutions, only 14.3% had adopted such approaches. Contemporary approaches come in various forms, including:

- Socially responsible investing (SRI) – a portfolio construction process that attempts to avoid investments in certain stocks or industries through negative screening according to defined ethical guidelines.
- Environmental, social and governance (ESG) investing – An investment practice that involves integrating the three ESG factors into fundamental investment analysis to the extent that they are material to investment performance.
- Impact investing – Investing in projects, companies, funds or organization with the express goal of generating and measuring mission-related social, environmental or economic change alongside financial return.
- Divestment – A type of exclusionary screening strategy through which investors actively exclude companies involved in activities linked to a particular area of concern from their investment portfolio.

While formal incorporation of social considerations into investment policy is growing, there is not yet a fully formed body of best practices among higher education institutions. Staff reviewed policies and practices developed by other universities, including the University of Washington, Stanford and Trent University, that their boards use to assist their deliberations on investment policy changes. Staff also reviewed key takeaways cited in the July/August 2014 Trusteeship Magazine article titled “Socially Responsible Investing: Lessons from the Field.” Based on the experiences cited in the article, boards are encouraged to engage in an open dialog with stakeholders and to consider whether their university mission and core values align with their investment policies when faced with requests for socially responsible investing.

Based on this review and Board discussion in October, staff developed an initial draft framework for committee discussion (Attachment 1). The draft framework relies on the Board’s fiduciary responsibilities and the university’s mission and core values from Strategic Plan 3.0 as the foundation for the Board’s consideration of requests for changes in investment policies. It also describes how the Board will consider the requests for changes in investment policies and the process for submitting a request to the Board. The framework also pays particular attention to

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requests affecting the PUF and sets out a proposed threshold for concurrence among participants for these types of requests.

## KEY QUESTIONS

Some of the important issues for committee discussion include:

- Does the draft framework describe the key elements needed to guide the Board in making decisions on investment policy changes? Are there other considerations that should be included in addition to the university's mission and values?
- Is the framework robust enough to be used to consider a broad range of requests?
- Is the process for requesting changes to the investment policy transparent to stakeholders?
- Who should have standing to make requests? OSU stakeholders such as students, faculty, and staff?
- For requests affecting the PUF, what level of concurrence among participating universities is necessary for approval of these types of changes?
- Is there additional information or criteria that should be included in a request to the Board?
- Is there a sufficient "off-ramp" for requests not meeting the defined criteria?

## NEXT STEPS

Based on committee discussion, staff will revise the draft investment framework for consideration at the January 19, 2017 committee meeting.



## Oregon State University DRAFT Framework to Guide Evaluation of Investment Policy Requests

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### I. Purpose

The Oregon State University Investment Policy identifies the policies for prudent investment of university funds with the primary objectives of safety, liquidity, and return on investments. The Board recognizes that from time to time it may receive requests from university stakeholders or, in the case of the Public University Fund for which Oregon State University serves as the Designated University responsible for administration of the fund, from other public universities participating in the fund, to make specific investment changes to the policy(ies), due to environmental, social, or governance factors. The purpose of this framework is to guide the Board's consideration of such requests. In some instances, approval of a request by the Board will require changes to the OSU Investment Policy and/or Public University Fund (PUF) Investment Policy.

The Board may apply this framework to any portfolio under the Board's purview including endowment assets managed on behalf of the university, endowment assets managed directly by the university, and operating assets managed by the Oregon State Treasurer, including the PUF. Specific actions may be limited by the particular asset group such as trust obligations related to endowment funds or by inherent constraints imposed by the investment manager/advisor.

### II. Guiding Principles

While subject to the prudent investor standard, the Board of Trustees, as fiduciary of Oregon State University and as part of its decision-making process, will consider whether any proposed investment policy change aligns with OSU's mission and core values:

#### **Mission**

As a land grant institution committed to teaching, research and outreach and engagement, Oregon State University promotes economic, social, cultural and environmental progress for the people of Oregon, the nation and the world.

This mission is achieved by producing graduates competitive in the global economy, supporting a continuous search for new knowledge and solutions and maintaining a rigorous focus on academic excellence, particularly in the three Signature Areas: Advancing the Science of Sustainable Earth Ecosystems, Improving Human Health and Wellness, and Promoting Economic Growth and Social Progress.

#### **Core Values**

*Accountability.* We are committed stewards of the loyalty and good will of our alumni and friends of the human, fiscal, and physical resources entrusted to us.

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*Diversity.* We recognize that diversity and excellence go hand-in-hand, enhancing our teaching, scholarship, and service as well as our ability to welcome, respect, and interact with other people.

*Integrity.* We practice honesty, freedom, truth and integrity in all that we do.

*Respect.* We treat each other with civility, dignity and respect.

*Social responsibility.* We contribute to society's intellectual, cultural, spiritual and economic progress and well-being to the maximum possible extent.

In determining the alignment of an investment decision with the Board's fiduciary responsibility as articulated in the OSU Investment Policy and the mission and values of the university, the Board will consider:

1. OSU stakeholder input on specific investments as reflective of the OSU mission and values,
2. Impact of the proposed investment policy change on performance returns and income generated for beneficiaries,
3. Legal constraints related to the investment of specific assets under consideration (such as Trust documents),
4. Alternative approaches to addressing stakeholder concerns and input,
5. Other stated goals of the university relevant to a specific request, and
6. For actions affecting the PUF, whether a majority of participating universities consent to the requested change based on statements of position from the Board of Trustees at each participating university.

### III. Process for Requesting Changes

Requests for changes in investment policies must be made in writing and submitted to the Chair of the OSU Board of Trustees.

The request should demonstrate:

1. A clear description of the rationale for the proposed request,
2. Consistency with the university's mission and values,
3. Sustained and broad concern from a variety of university communities over a significant period of time, and
4. That stakeholders who have generated the resources being invested such as students, faculty, alumni, donors, or participating universities in the PUF have been engaged in developing the request.

For requests affecting the PUF:

1. The Chair of the OSU Board of Trustees will notify the Board of Trustees of participating universities and request a statement of position on the request.
2. To assist the participating universities in developing a statement of position, information developed under Section II, subsections 2 and 3 above will be provided.

The Chair of the Finance & Administration Committee will review the request with the Board Secretary and Vice President for Finance and Administration and, if deemed complete and

meeting the established threshold for consideration, schedule the request for review by the Finance & Administration Committee. To assist in the committee's evaluation of the request, the Vice President for Finance and Administration may convene an advisory group of stakeholders, fund management experts, and others. The Finance & Administration Committee will review the request and make a recommendation to the Board of Trustees.

Any specific action taken in response to a stakeholder request should not be considered binding on future requests. Each request requires its own due diligence, independent of prior actions, and each request will be considered on its own merits.