November 16, 2012

Proposal to the Resources Committee

Authors:
Members of the Princeton Coalition for Endowment Responsibility (PCER) - Seongcheol Kim ’14, Josh Shulman ’13, Lily Adler ’15, and Yongmin Cho ’14

Introduction

The Princeton Coalition for Endowment Responsibility supports the educational mission of the University and recognizes the central role of the Board of Trustees in seeing to the procurement and deployment of University’s resources for that mission. We also believe, however, that the current institutional mechanisms for considering cases in which the University’s investment decisions might conflict with its educational mission and core values are insufficient. In this proposal, we seek to outline a procedural framework for resolving such cases by way of expanding the scope of representation and accessibility to the campus community.

In Part One, we formulate two central premises: 1) that the campus community\(^1\) constitutes in itself a group with a legitimate interest in matters related to University finances -- as the Resources Committee’s current guidelines themselves imply --, but who are subject to a representation deficit under the current structure; and 2) that the Resources Committee’s own professed objective of representing the campus community on finances-related matters (with consideration of core University values) presupposes the need for transparency, which is not being met under the current structure.

In Part Two, we present a proposal for changes with the objective of making campus community representation on finances-related matters more effective, in accordance with the Resources Committee’s own constitutive purpose.

Finally, the Appendix consists of an annotative critique of the Resources Committee’s current guidelines, pointing out the specific problems as we see them in the text.

---

\(^1\) We henceforth define “campus community” as consisting of those individuals who populate the University as it is currently constituted: faculty, staff, students (undergraduate and graduate).
PART ONE: PROBLEMS WITH THE CURRENT STRUCTURE

1. Representation Deficit

The Board of Trustees is a body of decision-makers with control over the University’s finances, and most of whom are neither constituted from nor directly elected by the campus community. We do not contest the fundamental legitimacy of the Trustees, or the service that they have done and are capable of doing for the University; indeed, the prominent role of alumni members at the highest levels of decision-making makes institutional sense, given the financial contributions and service that many of them have done for the University over time.

On the other hand, members of the campus community, as the University’s present constituents and beneficiaries of the University’s financial resources, likewise have a legitimate interest in matters related to University finances, albeit of a different magnitude: the campus community should have regular access to an effective institutional outlet for voicing opinions and raising any concerns to the Trustees regarding the investment of University funds. While the Resources Committee is meant to serve precisely this intermediary function, structural limitations effectively prevent it from doing so at present, giving rise to a representation deficit vis-à-vis the campus community (see next section).

Further, any consideration of “core University values,” as cited in the Resources Committee guidelines, calls for a definition that also incorporates the campus community’s conceptions of what that means. We question the weight that these “core University values” can carry in resolving any investment-related conflicts if they are not inclusive of the views and values represented within the campus community and/or are not positively accepted by its members.

2. The Need for Transparency

The Resources Committee is meant to serve the function of representing campus community interests on finances-related matters (with the implication that the campus community does indeed have a legitimate interest in such matters). Yet in order for this function to be taken seriously, transparency is needed on two levels.

First, in order for any kind of “sustained campus interest” on investment-related issues to be possible, members of the campus community must have access to information on where University funds are being invested to begin with. Currently, the only way in which recommendations can be made regarding investment issues is if i) members of the campus community find out about questionable investment holdings from an outside party or ii) if one of the Trustees with access to the investment portfolio directly raises the concern to the Resources Committee.

The Background section of the Resources Committee guidelines acknowledges the Board of Trustees as holding the sole responsibility and final say over all investment matters, retaining
the right to disregard recommendations from the Resources Committee. While we likewise recognize the Board of Trustees in this capacity, its singular mandate to represent University values and decide on any conflicts between the latter and the University’s investment decisions must imply some form of accountability to the campus community, especially if the guidelines and the recommendations made by the Resources Committee are non-binding -- as explicitly stated in the current Preamble section. This calls for an a priori procedural transparency that includes the disclosure, at least retroactively, of the steps taken toward resolving conflicts and the grounds for the decisions made.

PART TWO: A PROPOSED SOLUTION

The Princeton Coalition for Endowment Responsibility, in seeking to address the problem of effective campus-community representation on investment-related matters, takes up the challenge of integrating the values held within the campus community, through an open, deliberative process, into a framework of “core University values” that could subsequently be applied to address incoming concerns about University investments.

Such a process could look like the following: individual students (undergraduate and graduate) and student organizations stand for election to fill an ad hoc committee of 10-15 members (including any interested faculty), which would then have the task of drawing up a set of generalized guidelines as to which kinds of investments would be in conflict with “core University values.” The election element would be necessary to establish a starting-point democratic legitimacy, keeping in mind that any conception of “core University values” applied in a procedural framework for campus-community objections to University investments should reflect the values of the living and breathing campus community. The incorporation of student organizations would be meant to extend participation to groups for which issues of responsible investing might play a part in their activist or educational work (e.g. human rights, peace, or environmentalist groups). This would be a concrete mechanism for the transfer of values (in this case, those of organized students) onto a democratically conceived set of guidelines. These guidelines would, finally, have to be adopted in a University-wide referendum.

Once the ad hoc committee’s guidelines have been adopted, veto mechanisms could subsequently be triggered by an initiative coming from the campus community -- just as the Resources Committee’s current guidelines require --, whereby the threshold requirements for such initiatives would have to be concretized to ensure procedural regularity (e.g. a petition with \(n\) signatures; we recommend that the ad hoc committee be tasked with coming up with these specifications). If the threshold requirements are met, the Resources Committee would be

---

2 This implies that the criteria could be reexamined and rewritten after a certain period of time to account for the turnover in faculty, staff, and students.

3 This procedure is broadly inspired by the participatory budgeting system in Seville, Spain. As a way of allowing for citizens’ input on public spending decisions while concentrating investments on the neediest areas, the city held elections to a committee -- to which individuals and organizations could stand --, which then drew up a set of criteria (e.g. based on social justice or environmental concerns) for investments subject to the participatory budget.
required to examine the case, applying the “core University values” guidelines and conducting any additional fact-finding necessary to reach a decision. If the investment in question is adjudged to be in violation of “core University values,” a University-wide referendum (non-binding, given the Trustees’ ultimate statutory authority over such matters) would be held on asking the University to discontinue the investment. The referendum would serve as a safeguard for the open-ended, case-by-case nature of the procedure: Even if the Resources Committee finds a particular investment in violation of the generalized “core University values” guidelines, there will have to be a campus discussion as to whether that investment in question has the acceptance or the censure of the campus community. Voting to accept an investment deemed problematic by the Resources Committee’s investigation on the basis of the “core University values” guidelines, then, would always remain an option for the campus community.

If, on the other hand, the Resources Committee’s investigation concludes that there is not enough information to reach a decision, a University-wide referendum would be held on asking the University to discontinue the investment pending further release of information. The rationale for this provision would be that in view of the fact that the University is not a for-profit institution, there should at least be the option (i.e. through the referendum) to request that the University place any borderline cases “on hold” rather than grant the benefit of the doubt in the interest of continued profit maximization.

It is important to note that the procedural framework delineated in the preceding paragraph implies a limited regulatory mechanism for University investments that is of a specifically negative, case-by-case nature. Because members of the campus community are, by definition, beneficiaries of the University’s finances, the extent of their control over investment decisions can only be negative (i.e. in the form of an objection first raised to the Resources Committee, which then applies the “core University values” guidelines to examine that case, rather than the guidelines subsequently becoming the generalized basis for University policy), and case-by-case (i.e. retroactively against individual investment decisions, rather than applied systematically). In other words, the campus community can, through a democratic process, express a desire not to have University funds invested in its name in a particular way, but it cannot exercise anything like a controlling interest from within in the sense that the Trustees do.

Under this proposal, the concrete role of the Resources Committee would be adjusted and updated in order to more effectively serve its constitutive goals, as enumerated in the current guidelines: the “continuing review of the University’s policy and practices” would be given a procedural framework and a newfound democratic legitimacy, while the “core University values” would finally be given a definition through an inclusive, deliberative process resulting in a set of guidelines to be subsequently applied to concerns raised to the Resources Committee.

Appendix: Annotated Notes on the Current Resource Committee Guidelines

INTRODUCTION

Paragraph 1
• **Lines 1-4:** “At Princeton, the Board of Trustees has the sole responsibility for all investment matters, including the determination of University policy on all investment-driven “social responsibility” issues” that arise as a result of our ownership of corporate securities. Although the Trustees have traditionally sought the advice of the Resources Committee on such issues, they retain the responsibility for final decisions on such matters." - While we accept the Board as our representative with “sole responsibility", this should not exempt it from procedural transparency for purposes of accountability. At the minimum, the Board of Trustees should publicly provide a reason to disregard recommendations from Resources Committee.

• **Lines 8-9:** “Recommendations submitted by the Resources Committee will always be given serious consideration by the Board of Trustees, but actual decisions by the Board will depend on overall University policies and objectives, as well as the particular arguments made in support of each recommendation.” - While we agree that the Board’s decisions must “depend on overall University policies and objectives,” it cannot be up to the Board alone to both define and abide by these policies and objectives (cf. our proposal that the campus community should play a role in defining “core University values” that could then be applied in examining investment-related conflicts).

**Paragraph 2**

• “It should also be recognized that no set of Guidelines can be expected to cover all situations that could arise. Thus, no matter how careful we are in the preparation and review of these guidelines, it will still be necessary to make case-by-case judgments in the future as we seek to deal with particular social responsibility issues.” - We agree that conflicts raised will generally have to be decided on a case-by-case basis, however these decisions must be grounded in a fixed procedural framework that is inclusive of the campus community’s input.

**Paragraph 3**

• “In addition, we should all recognize that there are practical limits to what the University can and should do in this area. In some cases it will not be possible to collect the kind of information we would want and need to make an informed judgment about an issue. In other cases, the lack of staff or other resources will limit what we can do to pursue a particular issue in a responsible way.” - Given that Princeton is a non-profit, educational institution, in the cases where there is a lack of information regarding controversial investments, we should strive to expand the campus discourse to include the option of discontinuing the investment in question, rather than making continuation of the investment in the interest of profit the default option (cf. our proposal that in cases where the Resources Committee’s investigation concludes that there is insufficient information on an investment-related conflict, there should be a (non-binding) University-wide referendum on asking the University to discontinue that investment).

**Paragraph 5**
“In the consideration of any investment-driven social responsibility issues, we recommend that future Resources Committees follow guidelines such as those described in Attachment 1 and explained below, rather than reviewing those issues on a purely ad hoc basis. In general, the purpose of these guidelines is to assist the Resources Committee in trying to evaluate such social responsibility issues, by making the evaluation process more consistent and providing a greater degree of objectivity in a process that is often charged with emotion and dependent on individual judgment. These guidelines will not be automatic or definitive in determining what the Resources Committee would recommend for a specific company whose conduct seems questionable; clearly, those judgments will continue to be made on a case-by-case basis. Rather, these guidelines are intended to help the Committee determine which issues warrant monitoring by the Committee and a possible recommendation to the Trustees for further action, in contrast with the vast majority of stockholder issues on which the University should remain silent.” - Instead of reifying our inaction on stockholder issues as a matter of policy, we should strive to expand the campus discourse through our proposed procedural framework for considering concerns and possible alternative actions.

BACKGROUND

Point #1: “The “basic functions of the University are to transmit and expand knowledge through teaching and scholarship. In carrying out these functions there is a strong presumption against the University as an institution taking a position or playing an active role with respect to external issues of a political, economic, social, moral or legal character” (February 1978 Statement on role of the University in confronting external situations). The May 1978 Statement on South Africa amplifies that point – “We should be extremely reluctant to override this presumption because to do so may threaten the essential independence of the University.” - Investment can be as strong a form of intervention as non-investment, especially when large sums of money are involved. Moreover, if our mission is teaching and scholarship, these entail a continuing campus discourse that includes both the options of investment and non-investment.

Last paragraph: “For the most part the Trustees have delegated the responsibility for selecting specific investments to outside money management professionals. These professionals are provided with a detailed investment policy statement that describes our basic investment goal of maximizing the total long-term return on the endowment consistent with acceptable levels of risk...” - The “acceptable levels of risk” need to be more explicitly defined, and with input from the campus community. We believe that the “acceptable levels of risk” should remain in line with “core University values,” which should in turn be collectively defined.

PREAMBLE to GUIDELINES

The guidelines were last revised in January 1997, and therefore need to be revisited.
• **2nd paragraph**: “The Board explicitly reserves the right to deviate from the Guidelines” - Refer to our comment about Paragraph 1, Lines 1-4.

• **4th paragraph**: "Third, the Guidelines deal primarily with the process to be followed by members of the campus community in raising investor-responsibility issues. Individual Trustees have the right, indeed the responsibility, to raise such issues directly with the Finance Committee or the full Board whenever and in whatever form those issues arise." - Refer to our comment about Paragraph 1, Lines 1-4.

**THE GUIDELINES**

• **Point #0**: “If there is considerable, thoughtful, and sustained campus interest in an issue involving the actions of a company or companies in the University’s investment portfolio, the Resources Committee will study the issue. In the first instance, the Resources Committee will determine what constitutes “considerable, thoughtful, and sustained campus interest” in each case and report its conclusions to the Trustees. It may be appropriate, for example, to require that an issue be raised several times over an extended period of time, say two academic years. The Resources Committee will also consider the magnitude, scope, and representativeness of the expressions of campus opinion in making this determination.” - “Sustained campus interest” presupposes and necessitates some form of transparency (*cf. the second paragraph of our section “The Need for Transparency”)*.

• **Point #1**: “Assuming that the Resources Committee believes there to be sufficient campus interest in an investment-related issue and recommends that a more extensive review be conducted, the Committee would then try to gauge the importance of the issue. More specifically, we would try to determine whether or not there was a central University value clearly at stake. Defining those core values in the absence of a particular issue is difficult, but, for example, it is clear that the University places very high value on individual human rights and freedom of expression and dissent…” - We believe that “central University values” should be inclusive of campus-community input. In the event that the Committee determines that there was no “central University value” clearly at stake, it should at least disclose the grounds for its decision to the campus community (*cf. our proposal section on procedural transparency*)

• **Point #2**: “Assuming considerable campus interest and a central University value clearly at stake, the Resources Committee would seek to determine whether it was possible for the University community to reach a consensus on how the University should respond to the situation…” - Determining the possibility of any kind of “consensus” implies a more regularized and participatory framework for arriving at a consensus, such as through a University-wide referendum (which would follow a Resources Committee investigation in turn triggered by campus action, such as through a petition; *cf. Part Two of our proposal*).