

Proposal for Creation of University Proxy Subcommittee

**STUDENT ALLIANCE TO REFORM CORPORATIONS
UNIVERSITY OF PENNSYLVANIA
Fall 2002 (Rev. 10/18/02)**

OBJECTIVE:

We, PennSARC (Penn’s Student Alliance to Reform Corporations), propose that the University of Pennsylvania’s proxy strategy become more aligned with its longstanding dedication to fostering positive social and environmental change.

We understand that the primary concern of the Board of Trustees in managing the endowment is to maximize financial return on invested assets. We believe, however, that to be true to our Penn heritage, the University’s financial decisions must be made in the context of strong ethical commitments. Importantly, the University community stands to offer informed perspectives on corporate practices that cause excessive or deliberate social or environmental harm. We believe it is critical that these perspectives be incorporated into the proxy decisions.

SPECIFIC RECOMMENDATIONS:

1. Creation of an Advisory Committee

In order to increase awareness of the aforementioned concerns, an advisory committee composed of representative members of the university community (faculty, students, staff, and alumni) shall be created. The *University Advisory Committee on Investor Responsibility* will review proxies that address social injury or environmental harm and democratically decide which proxies warrant shareholder action. Shareholder action includes but is not limited to: a proxy vote, a letter to the management, or, in extreme cases, divestiture.

2. Subscription to Proxy Review Service

To enhance the *Advisory Committee's* awareness of such social concerns the Investments Officer will subscribe to an impartial proxy review service that will highlight proxy resolutions relating to potential social and environmental injury.

3. Utilization of Endowment Data

To achieve its goals, the *Advisory Committee* shall have access to the contents of the endowment portfolio. This proprietary data will be handled confidentially.

4. Presentation and Publication of Results

The *Advisory Committee's* recommended initiatives shall be presented to the Trustee Subcommittee on Proxy Voting for approval before each proxy season. After each proxy season, the *Advisory Committee* will publish a final report containing its recommendations, the Trustees' reactions, and any action taken by the University.

BACKGROUND

PennSARC is the University of Pennsylvania's chapter of the Student Alliance to Reform Corporations, a national corporate reform movement. Our alliance has grown out of the ethical investment campaigns on over 250 college campuses. As influential stockholders and leading social institutions, universities have a profound effect on corporate behavior. Therefore PennSARC believes that the University of Pennsylvania should have an influence that is consistent with the core ethical values of the University. Furthermore, the University is the only Ivy League institution with neither a set of socially responsible investment guidelines nor an advisory committee to monitor the ethical content of its endowment. Change is overdue.

Certain corporations, while not necessarily breaking any laws, have overstepped the bounds of an ethical business model in some of their behaviors regarding key social and environmental issues. Proxy resolutions have tried to put limits on such behaviors. We believe it is critical that the University give serious consideration to supporting such proxy resolutions. The natural end of the endowment is economic growth, which is an obviously positive end considering the institution it supports. Proxy voting is a tool by which the means of economic growth may be improved as well, bringing the University's investment actions closer to its institutional merit.

Universities enjoy a strong influence on both corporate and public policy. Therefore, it is not enough for the University to simply recruit students, faculty and staff who seek to improve the world in which we live. Specifically, we believe that the University's shareholder behavior should reflect these same foundational precepts. Of the long list of proxy initiatives that are raised at stockholder meetings, PennSARC is concerned with the small portion of proxies that keep corporate environmental and social behavior in check.

In the year 2000, PennSARC initiated a dialogue with the Trustee Subcommittee on Proxy Voting, at which time we submitted a list of socially responsible principles we believed were of concern in the context of the University's investments. The original proposal dealt with issues ranging from human rights to corporate disclosure, and suggested that Penn either divest or vote their proxies on issues of concern. On the grounds that the original proposal did not address the trustees' fiduciary responsibility to the University and was deemed nebulous in scope and implementation, the Trustee Subcommittee denied PennSARC's original initiative.

In light of past dialogue, PennSARC has re-formulated its proposal for the University Trustees. PennSARC believes it has found a practical solution that would further align the University's investment behavior with socially responsible principles, without compromising the Trustees' fiduciary duty. PennSARC's 2002 proposal is not a request for divestiture, but a rubric for shareholder responsibility from which we believe Penn would benefit ethically without financial risk. We do not expect socially conscientious divestment to be routine.

PennSARC acknowledges that it is beyond the scope of our university to be a global corporate watchdog. However, President Rodin has clarified that "the University must establish and project a clear institutional identity." The PennSARC proposal is an opportunity for the University to unify its institutional ideals and practices and encourage "the growth of humane values." The guidelines we propose are not controversial. In fact,

most reflect universal norms of decency and respect as codified in U.S. and international law.

In the Executive Summary of Strategic Goals, the University has clearly outlined its desire to “effectively communicate to its various constituencies the ways in which it contributes to the advancement of society.” The University has since put this statement into practice. As the largest buyer of wind power in the country, the University has demonstrated that it is no stranger to the crucial environmental issues challenging our world today. The University’s current proxy policy leads to abstention in most of the relevant votes. Abstention is effectively a vote in favor of practices that contradict the University’s ethical values. For example, on May 30, 2001, a proxy resolution was proposed for the Exxon Mobil Oil Corporation regarding drilling in the Arctic National Wildlife Refuge¹. When the University abstains from voting on proxies like this one, its vote defaults in favor of environmental degradation. One might constructively ask how environmental degradation “contributes to the advancement of society”.

Aside from the University’s social and environmental responsibility, proxy voting rights must also be diligently exercised as an aspect of fiduciary duty. The importance of shareholder monitoring and voting was declared more than half a century ago by the founders of fundamental stock analysis, Benjamin Graham and David Dodd²:

“The choice of a common stock is a single act, its ownership is a continuing process. Certainly there is just as much reason to exercise care and judgment in being a shareholder as in becoming one.”³

By implementing PennSARC’s proposed actions the University will find itself one step closer to attaining its sought-after convergence of ethics and efficiency, theory and practice.

¹ <http://www.socialfunds.com/>

² As cited in the Calpers Statement of Investment Policy March 19, 2001. Information available at www.calpers.org

³ Graham and Dodd, Security Analysis, 1st Edition (McGraw Hill, 1934) 508

SAMPLE EXECUTION FOR THE 2001 PROXY SEASON

Implementation of this proposal would result in the following example proxy votes for the 2001 proxy season:

- A. Vote FOR shareholder proposals that prohibit drilling in the Arctic National Wildlife Refuge.
- B. Vote FOR shareholder proposals that ask management to endorse the Ceres principles.
- C. Vote FOR shareholder proposals that ask management to control emissions of pollutants.
- D. Vote FOR shareholder proposals that ask companies to report on hazards present in manufacturing facilities.
- E. Vote FOR shareholder proposals that ask companies to report or take action on climate change.