STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Amendment to Investment Policy: Consolidated Endowment Fund

RECOMMENDED ACTION:

It is the recommendation of the Finance, Audit and Facilities Committee (FAF) that the Board of Regents prohibit direct investment in companies doing business in Sudan. The prohibition is directed towards companies whose business activities support the Sudanese government in its continuing sponsorship of genocidal actions and human rights violations in Darfur.

Approval of the recommended action will result in the amendment of the “Statement of Objectives and Policy for the Consolidated Endowment Fund.” Implementation will involve divestment of direct company holdings and ongoing portfolio monitoring to prevent future investment.

BACKGROUND:

A year ago, a group of student leaders and faculty approached the University administration to express their concern over the continuing genocide in the Darfur region of Sudan. From those discussions, a recommendation was made to the Board of Regents in June 2005 to use shareholder activism as a way in which the University could publicly voice its concern. In response, the Board amended its investment policies to enable targeted letter-writing campaigns, proxy voting and sponsorship of shareholder resolutions with companies doing business in Sudan.

This decision resulted in a number of activities over the past year:

1. The University’s investment portfolios were screened monthly for companies doing business in Sudan. Typically two to four companies were identified – some were long term positions, others gone before the next screening. As of the last screening at the end of March 2006, the University held direct positions in two companies with ties to Sudan.

2. Letters of engagement (See Appendix E), signed by the FAF Chair, were sent to seven companies. Responses were received from five of the seven. One company reported that its Sudanese operation was sold in 2003. Two companies provided infrastructure support (healthcare and banking services) to the people of Sudan and further dialogue was not pursued by the University. One company dropped out of our portfolio. And one company received a second letter from the University (see Appendix F) to continue the dialogue.
VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Amendment to Investment Policy: Consolidated Endowment Fund (continued p. 2)

on its Sudanese activities. Of the two companies that did not respond, one dropped out of our portfolio and the last company is a recent addition to the portfolio and still within the deadline period for a response.

3. To facilitate communication between the administration and the campus community, a student intern was hired by the Treasury Office whose responsibilities include updates on the situation in Sudan, research on specific companies and dialogue with students at other colleges and universities on their Sudan-related activities. Periodic meetings between student activists and Treasury Office staff further facilitate an ongoing dialogue.

4. A new third-party research provider on Sudan emerged over the past year – Institutional Shareholder Services (ISS). While a long-time provider of corporate governance-related fiduciary services to institutional investors, the Sudan research product was new. The University was instrumental in encouraging the development of a more robust, dynamic research platform.

5. The University’s continuing involvement in the Consortium on Social Responsibility, a group of twenty public and private universities, proved helpful this past year as more institutional investors took formal action to address the situation in Sudan.

Shareholder Activism:
Shareholder activism typically involves one or more of the following: (1) voting on shareholder resolutions (2) engaging the company in a dialogue on its corporate practices (3) sponsoring or co-sponsoring issue-specific shareholder resolutions (4) divestment. Due to its potential to negatively impact portfolio performance, divestment is viewed as a course of last resort. In addition, the loss of shareholder status effectively ends the dialogue with banned corporations. With divestment, the emphasis shifts from an effort to change corporate behavior through shareholder activism to a focus on changing the behavior of the Sudanese government itself.

Sudan Divestment:
There has been a marked increase in Sudan divestment initiatives among institutional investors over the past year with universities and their constituents at the forefront of the Sudan Divestment movement. (See Appendix C) Ten colleges and universities including Harvard, Stanford, Amherst, Yale, Brown, Columbia and the University of California have selectively divested their Sudan holdings. Divestment legislation has likewise been passed in a number of states.

Research and Screening: Due to the lack of a common standard for screening companies in Sudan, institutional investors have pursued a wide variety of approaches
in their implementation of a divestment policy. These have ranged from the identification of a handful of names, chiefly those involved in the Sudanese oil industry, to broad mandates which ban investment in any company conducting business in Sudan.

The University of Washington, along with other institutional investors, has worked closely over the past year with Institutional Shareholder Services (ISS) on its emerging Sudan research product. The University’s goal was to find a third-party research provider focused on companies which financially benefit the government of Sudan versus companies which supply infrastructure support to the citizens of Sudan. (See Appendix D)

ISS released its new Sudan product in May 2006 which currently lists 32 companies. The majority of these are involved in oil related business activities. Company lists for portfolio screening are updated monthly and include research and analysis to support informed decision-making.

UW Historical Response to Ethical Concerns: With the exception of South Africa in the late 1980’s, ethical concerns have not led to divestment. Economic rationale drove the decision to divest the UW’s investment portfolios of tobacco stocks in January 2000. Over the years, the UW pursued varying degrees of shareholder activism around human rights violations in Burma and global warming. In all cases there was strong involvement from multiple constituencies including the Board of Regents, faculty, students and staff.

Impact: The recommended action, if approved, will add a new paragraph to Section B “Ethical Considerations” in the Statement of Investment Objectives and Policy for the Consolidated Endowment Fund:

“Direct investment in companies doing business in Sudan whose business activities support the Sudanese government in its continuing sponsorship of genocidal actions and human rights violations in Darfur is prohibited.”

Attachments:
APPENDIX A: Sudan Status and Timeline – UW Shareholder Activism over the Past 12 Months
APPENDIX B: Support for Sudan Divestment
APPENDIX C: College and University List – Sudan Divestment
APPENDIX D: Institutional Shareholder Services (ISS) – Sudan Research Criteria
APPENDIX E: SAMPLE Letter of Engagement
APPENDIX F: SAMPLE Follow-up to Letter of Engagement
APPENDIX A
SUDAN – STATUS AND TIMELINE

The following is a timeline on Sudan-related shareholder activism at the University of Washington since the issue was presented to the Board of Regents one year ago.

June 2005: Amended Consolidated Endowment Fund policy to allow CIO to initiate letters of engagement and sponsor shareholder resolutions relative to the human rights violations in Sudan.

Summer 2005: Restructured international equity portfolio. While this action was unrelated to the Sudan decision, the combination of manager additions and deletions altered the list of international companies held by the University.

Summer 2005: Continued conversations with colleagues at other institutions on their experience with the Sudan issue – and other socially responsible investment issues. Focused on effective process and communication.

August 2005: Drafted letter of engagement. Treasury Office and student activists decide on next steps and determine a process for ongoing communication between the Treasury staff and the students. Active student involvement encouraged going forward through the establishment of an hourly student research position in Treasury to assist in research on companies active in Sudan, proxy voting practices in foreign countries, and communication with faculty and staff on the issue.

September 2005: Established a process for monthly monitoring the University’s portfolio for companies doing business in Sudan. Determined that only three of the six companies identified in August as doing business in Sudan were held by the UW as of September 30.


November 2005: Treasury staff and students reviewed company responses and determine follow up.

December 2005: Contracted Intuitional Shareholder Services for more comprehensive company research and proxy voting research.

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January 2006: Part time student hourly student hired to work with Treasury staff on company research, foreign proxy voting process, and tracking other Sudan related activity by other intuitional investors.

February – May 2006: Continued monitoring of the portfolio and “letter of engagement campaign” shareholder engagement with companies doing business in Sudan for which UW has an investment. Worked with Institutional Shareholder services to identify shareholder resolutions related to Sudan and identify potential co-sponsors.

June 2006: Review progress/process with the Finance, Audit and Facilities Committee. Recommend change in investment policy to include divestment as an option.

Our assumption is that this issue will not be resolved in a matter of months or even years. The process of shareholder activism will require an ongoing collaboration among University constituents – staff, students, faculty, Board.
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B. Finance, Audit and Facilities Committee

Amendment to Investment Policy: Consolidated Endowment Fund (continued p. 6)

APPENDIX B

Support for Sudan Divestment

UW Student and Faculty Support

Registered Student Organizations Supporting Divestment

- ASUW
- African Student Association
- Alpha Epsilon Delta
- Black Student Union
- Brit Tzedek v’Shalom
- Center for Human Rights and Justice
- College Republicans
- Earth Club at UW
- Episcopal Campus Ministry
- French Fry Fuel Fools
- Fun Guy Drum Club
- International Friends
- Inter-Varsity Christian Fellowship
- Muslim Student Association
- Newman Center
- Rally for Change
- SEED (Students Expressing Environmental Dedication)
- Sierra Student Coalition
- Student Labor Action Project
- Students for Fair Trade
- Students for a Free Tibet
- Sustainable UW Alliance
- Tzedek Hillel
- UW Burma Action
- WashPIRG
- VOX: Voices for Planned Parenthood
- Young Democrats

Faculty Support

- Mary Callahan; Associate Professor and Director, International Studies Program, International Studies
- James Felak; Professor, History Department
- Sharon B. Garrett; Research Associate, Alcohol and Drug Abuse Institute
- Angelina Snodgrass Godoy; Assistant Professor, Jackson School of International Studies; Law, Society and Justice
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- Nancy Harsock; Professor, Political Science
- Ruth L. Honour; HRERN Program Coordinator, Interdisciplinary Arts & Sciences
- Linda L. Ilitis; Academic Counselor, International Studies; Lecturer, Comparative Religion and South Asian Studies
- Lucy Jarosz; Associate Professor, Geography
- Bryan D. Jones; Professor, Political Science
- Kelly A. Kajumulo; Research Coordinator, Psychology
- Elizabeth Kier; Associate Professor, Political Science
- Margaret Levi; Professor, Political Science
- Karen T. Litfin; Assistant Professor, Political Science
- Jamie Mayerfeld; Associate Professor, Political Science; Seattle Campus Advisor, Human Rights Minor
- Jonathan L. Mercer; Associative Professor, Political Science
- M. Jan Meyerding; Program Coordinator, International Studies Center, International Studies
- Naomi D. Murakawa; Assistant Professor, Political Science
- Mark Smith; Associate Professor, Political Science
- Summer E Starr; Program Assistant, UW MBA Career Services
- Theron Paul Stevenson; International Program Coordinator, Comparative History of Ideas
- Susan A. Stoner; Research Associate, Psychology; Research Associate, Alcohol and Drug Abuse Institute
- Carol Strong; Research Coordinator, Psychology
- Dr. Jennifer Taggart; Lecturer, Math Department
- Lynn M. Thomas; Associate Professor, African History; Chair, African Studies
- Bob Weinstein; Fiscal Specialist Supervisor, Business and Finance (Computing and Communication)
- Peter Weiss; Lecturer, Biology
- Beverly L. Winner-Coates; Secretary Senior, Henry M. Jackson School of International Studies

Community Support

- Coalition for Global Concern, Seattle University
- The Darfur Action Club, Seattle University
- The Environmental Club, Seattle University
- The National Society of Black Engineers, Seattle University
- Oxfam, Seattle University
- SaveDarfurWashingtonState
- Southern Sudanese Community of Washington
- Students Taking Action Now – Darfur, Seattle Central Community College
- Young Democrats, Seattle University
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APPENDIX C

COLLEGE AND UNIVERSITY LIST - SUDAN DIVESTMENT

Harvard
Divested direct holdings of PetroChina in April of 2005. Under intense student, media, and political pressure, also sold direct holdings of Sinopec in March of 2006.

Stanford
Announced divestment from PetroChina, Sinopec, ABB, and Tatneft in June, 2005 following efforts by the STAND student group and Stanford's Advisory Panel on Investor Responsibility.

Samford (Birmingham, Alabama)
Voted in the summer of 2005 to sell its direct holdings of Patrician in response to student efforts.

Dartmouth
Announced in November 2005 its intention not to invest in ABB, GNPOC, PetroChina, White Nile, Petronas, or Sinopec. Debating whether to purchase the KLD or ISS targeted lists.

Amherst
Voted in January of 2006 to divest nearly two-dozen companies, primarily from the oil, gas, energy, and telecom sectors and meeting the criteria of providing the government of Sudan with significant financial support.

Yale
Announced in February, 2006 its decision to divest from seven companies involved in the Sudanese oil industry. Companies chosen based on extensive student research report and ISS data.

University of California
Voted in March, 2006 to divest from nine companies (in the oil & gas, energy, and telecom sectors) and exercise shareholder voice on 4 others. Decision came after prolonged student research effort.

Brown
Voted in March, 2006 to divest from six companies: ABB, Alcatel, PetroChina, Siemens, Sinopec, and Tatneft. Decision based on a recommendation from Advisory Committee on Corporate Responsibility in Investing.
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Brandeis
Voted in April, 2006 to ban investment in “companies that are complicit with Sudan's genocidal policies”. Explicitly excluded telecom industry, will be announcing companies list at a later date.

Columbia
Announced in April, 2006 its decision to divest from 18 companies based on research by the Advisory Committee on Socially Responsible Investing.

Efforts also in progress at: MIT, Bowdoin, Emory, University of Maryland, California State University, Davidson, Northeastern, Wellesley, University of Pennsylvania, Simmons College, Trinity College, University of Southern California, University of Vermont

States where divestment legislation has been passed: Illinois, New Jersey, Oregon, California (CalSTRS only), Maine, Vermont, Ohio (non-binding), .

States with divestment bills currently being debated: Massachusetts, Connecticut, Rhode Island, Maryland, New York, Iowa, Indiana.

Cities that have divested: Providence, RI (Task Force targeted model), New Haven, CN (Yale seven)

Please see the State of Sudan Divestment report for much more in-depth information, available at:
APPENDIX D

Institutional Shareholder Services (ISS)
SUDAN RESEARCH CRITERIA

I. Criteria

The research will identify publicly-traded domestic and international companies that:

1. Provide revenues to the Sudanese government through business with the government, government-owned companies or government-controlled instrumentalities.

2. Generate revenues from the following oil related business activities:
   - Oil exportation
   - Extraction or production of oil
   - Exploration of oil
   - Construction and maintenance or a pipeline or refinery
   - Old-field infrastructure

3. Offer little substantive benefit to those outside of the Sudanese government or its Affiliated supporters in Khartoum, Northern Sudan and the Nile River Valley.

4. Oil related business activities that have not taken any substantial action related to the government to halt the genocide or have demonstrated complicity in the Darfur genocide. Substantial action shall include, but is not limited to, curtailment of operations or public pressure on the Sudanese government.

5. Supplies military equipment within the borders of Sudan, including weapons, arms or military defense supplies.

6. Provides equipment within the borders of Sudan that may be readily used for military purposes, including radar systems and military grade transport vehicles, unless the company implements safeguards to prevent use of that equipment for military purposes.

7. Provides military equipment, arms, or defense supplies to any domestic party in Sudan, including the Sudanese government and rebels. A strong presumption shall also be made against any company providing any domestic party in Sudan with equipment that may be readily co-opted for military use,
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*Amendment to Investment Policy: Consolidated Endowment Fund* (continued p. 11)

8. including radar systems and military-grade transport vehicles, unless that company has implemented safeguards against such co-option.

II. Exceptions

1. Companies which, either directly or through an affiliated instrumentality, provide services clearly dedicated to social development for the whole country shall be excluded from the focus list. Such entities include, but are not limited to, those providing medicine and medical equipment, agricultural supplies and agricultural infrastructure, educational opportunities, journalism-related activities and general consumer goods.

2. Companies undertaking significant humanitarian efforts in the country’s Eastern, Southern, or Western regions, or reasonable evidence that company engagement with the government has improved the situation in Darfur.

3. Evidence where constructive engagement with the company has resulted in compliance, or progress towards compliance at a reasonable pace consistent with the situation in Darfur.

APPENDIX E
B. Finance, Audit and Facilities Committee

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SAMPLE LETTER OF ENGAGEMENT

January 19, 2006

Jeroen van der Veer
President and Managing Director
Royal Dutch/Shell Group of Companies
Carel van Bylandtlaan 30
2596 HR The Hague
The Netherlands

Dear Mr. van der Veer,

I write on behalf of the University of Washington Board of Regents as the Chair of the Board’s Finance, Audit and Facilities Committee. This Committee is charged by the Board with exercising policy direction regarding the University’s $2 billion investment programs, including its endowment and other invested funds.

Founded in 1861, the University of Washington is one of the oldest state-supported institutions in the Western United States with a current student body in excess of 42,000. The University’s faculty is distinguished by the many honors its members have received from professional societies and independent bodies including four Nobel prizes in physics and medicine and nine fellowships from the MacArthur Foundation. The University has earned an international reputation for its research and graduate programs and is ranked among the twenty top universities in the world by The Economist.

Recently, the Board of Regents was approached by a group of student leaders and eminent faculty concerned about the ongoing genocide in the Darfur region of Sudan. These constituents highlighted the extraordinary magnitude of the crimes committed by the Sudanese government in Darfur and genocide’s status as a ‘special case’ human rights situation calling for a unique and powerful response.

National and international concerns have been ongoing since Congress first agreed to economic and trade sanctions in 1997. Despite several signed peace accords, civil war and human rights violations continue and the United Nation Security Council expanded its arms embargo in the states of North, South and West Darfur in March of 2005. In recent months, we’ve seen large, well-reputed
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institutional investors take action by divesting their holdings of companies doing business in Sudan. Our own constituents are urging us to follow a similar path.

The Board of Regents has, for now, elected to approach each of our portfolio companies operating in Sudan to evaluate their actions in light of the extreme human rights conditions in Darfur. Specifically, we ask that you respond to the following questions:

1. Do you have policies in place which include a code of conduct for doing business in countries with a history of repressive regimes?
2. If so, what does your code of conduct provide and what impact do you believe your business policies and practices have in supporting basic human rights in those countries? Have they been effective in furthering human rights in Sudan? Specifically how?
3. If you do not have such policies, why not?
4. What considerations govern your thoughts when assessing the growing risk to shareholder value through continuing involvement in Sudan?

We would appreciate your reply by February 15, 2006 so that we may report back to the full Board of Regents for further consideration of this issue. We look forward to hearing from you and thank you in advance for your time and cooperation.

Sincerely,

Shelly Yapp, Regent
University of Washington
March 22, 2006

Mr. Harold Hatchett
Shell Oil Company
1270 Avenue of the Americas
Suite 2320
New York 10020, USA

Dear Mr. Hatchett,

Thank you for your response to my letter of January 19th regarding Royal Dutch Shell and its subsidiary’s interests in Sudan. I would like to commend your company for its 2001 decision to stop supplying aviation fuel to Sudanese military aircraft due to human rights concerns, and the subsequent sale of the aviation fuel business in Sudan. These decisions demonstrate Shell’s commitment and sensitivity to the effects of their business on the local communities and are consistent with Principle 6 of the Shell’s General Business Principles.

I have reviewed your response, as well as the report on the November 17th meeting between representatives of Royal Dutch Shell and CalPERS regarding Shell’s operations in Sudan, and have a few more specific questions I would like to have clarified:

1 – I have encountered several references to Shell’s 2000 purchase of a substantial stake in the Chinese oil firm Sinopec, which is currently active in Sudan. Does Shell still hold this investment in Sinopec? Does Shell directly or through one of its subsidiaries hold investments in any other companies that do business with the Sudanese government? If yes, please provide details on these investments and their activities with the Sudanese government.

2 – Does Shell have any plans to expand its business operations in Sudan? Does Shell have any plans to enter the oil and gas exploration business in Sudan? If yes, please describe the nature of these plans.
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Amendment to Investment Policy: Consolidated Endowment Fund (continued p. 15)

3 – Has Shell specifically considered the potentially destabilizing impact of the current conflict in the Darfur region of Sudan on its business operations in the country? If yes, please provide copies of your risk assessment and situation analysis.

4 – In the CalPERS memorandum, Sudan is described as statistically insignificant to Shell’s business portfolio. As of November 2005, Shell’s business operations in Sudan are further described as not profitable and there were no growth initiatives in place for Sudan. If these statements are accurate, as an investor in Royal Dutch Shell, the University would like to understand your rationale for a continuing investment in Sudan.

I thank you again for your attention to these matters, and look forward to your reply.

Sincerely,

Fred Kiga, Regent
University of Washington