STANDING COMMITTEES

Governance Committee

Discussion of Draft Divestment Guideline and Advisory Committee on Socially Responsible Investing

INFORMATION

For information only.

BACKGROUND

In June 2016, the University of Washington Board of Regents ("Board") was presented with an Information item titled Socially Responsible Investing at the University of Washington and Peer Institutions. As a result of the discussion, the Board recommended the University develop a divestment guideline and formal process for addressing divestment requests to the Board.

In October 2016, the Board heard an Information item titled Discussion of Proposed Divestment Guideline. The Board requested additional review and input, asking that a revised document be brought forward at a subsequent meeting.

Attached for the Board’s consideration is a document titled Divestment Guideline that includes criteria and process for divestment. Also attached for the Board’s consideration is a document titled University of Washington Advisory Committee on Socially Responsible Investing. The process for divestment has been revised to require a recommendation by this proposed Board advisory committee. The information is being presented to the Board as a draft for discussion and input.

Attachments
1. University of Washington DRAFT Divestment Guideline (Clean Draft)
2. University of Washington Annotated DRAFT Divestment Guideline (Annotated Draft: comparison to October 2016 item reviewed by the Board)
3. University of Washington Advisory Committee on Socially Responsible Investing: Mission and Operational Guidelines (Draft)
4. Section 2 from the Board of Regents Governance, Standing Orders, Chapter 4, Advisory Committees of the Board of Regents
5. History of Social Investing at the University of Washington
The Board of Regents (the “Board”) is vested by statute to manage the investment portfolios of the University of Washington (the “University”). Decisions regarding the investment portfolios are geared towards maximizing the resources of the University in support of its primary teaching and research mission. The Board is ever mindful of the endowment as a fund established through private gifts which support donor-specified programs today and in the future.

Ethical considerations have led the Board, from time to time, to engage the University in shareholder activism and/or divestment. Such occurrences are rare. The fiduciary duty of the Board ensures a strong presumption against divestment. Divestment is considered only after all options to address the ethical concern have been reviewed and found unsatisfactory.

In making any determination, the Regents recognize the need for a clear process that allows for University community input, evaluation and articulated criteria to inform the Board in their decision making. No process or set of criteria, however, can be expected to address all situations that might arise. The Board reserves the right to interpret this Guideline as broadly or narrowly as they see fit, consistent with the policies of the University and applicable external laws and regulations.

**Criteria for Divestment**

The Board will only consider recommendations to divest its endowment of direct holdings in publically held companies which if they have been vetted by the Advisory Committee on Socially Responsible Investing (ACSRI) and which meet the following criteria:

1. The actions or inactions of the company or companies are deemed “morally reprehensible”, and
   a. The divestiture will likely have a meaningful impact toward correcting the specified social harm and will not result in disproportionate offsetting societal consequences; or
   b. The company contributes to harm so grave that it would be inconsistent with the goals and principles of the University.

2. Divestment is seen to be more viable and appropriate than ongoing shareholder engagement.

3. The requested action is not likely to impair the University’s capacity to carry out its educational mission (for example, by causing deep divisions within the University community).

4. There is a broad and continuing base of support within the University community including students, faculty, alumni and staff ** who believe that action is warranted.

5. A specific company or list of companies based on measurable industry criteria may be targeted for divestiture. If the divestiture is implemented, the University will appoint a third-party provider to identify targeted companies, and conduct ongoing monitoring and research on the targeted companies.

For activities believed to cause social harm but not on the level of moral reprehensibility, The Board may consider avenues other than divestiture such as shareholder engagement. In such instances, criteria #3 through #5 stated above must be met. Educational initiatives, sustainability initiatives or targeted research may also be pursued but those activities are outside the scope of this guideline.

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**Divestment**: The sale of specific companies and/or market sectors from the investment portfolio for financial, ethical or political reasons. The process involves ongoing portfolio screening and monitoring to ensure compliance.

**Evidence of University community support may include the following:**

a. Endorsements from student government i.e., the Associated Students of the University of Washington (ASUW) and the Graduate and Professional Student Senate (GPSS)

b. Endorsements from Registered Student Organizations (RSOs)

c. Endorsement from the Faculty Senate

d. General petitions signed by students, faculty, alumni and staff of the University.
### Process for Divestment***

1. Sponsors of a divestment proposal will submit a request for review to the Advisory Committee on Socially Responsible Investing (ACSRI).

2. The ACSRI (or a subcommittee of the ACSRI) will review the proposal to ensure that it meets the criteria specified in this Guideline for consideration. Note that all proposals submitted for review must include at a minimum, endorsements for divestment action by the Board from the ASUW, GPSS and the Faculty Senate.

3. Proposals that are submitted in-between ACSRI meetings will not be considered until the next regularly scheduled meeting.

4. If the ACSRI schedule is full, review of the divestment proposal, even if it meets the criteria, will be deferred to a later meeting.

5. The sponsors will present their proposal to the ACSRI for review and answer questions. The ACSRI may decide to bring in experts to provide additional information and education to committee members. The ACSRI will focus solely on the social and ethical aspects of the proposal.

6. The ACSRI may deny the proposal. Sponsors may elect to resubmit the proposal (revised or not) for future consideration.

7. The ACSRI may recommend that the Board consider the divestment proposal or recommend shareholder engagement.

8. To satisfy their fiduciary duty, the Board will request that the Office of the Executive Vice President Finance & Administration provide an in-depth analysis of the financial impact of the recommended divestment on the endowment. The University of Washington Investment Company Board may be asked to provide its perspective on the financial impact on the endowment.

9. The divestment proposal will initially be reviewed by the Board, or its appropriate subcommittee, as an information item. The sponsors of the proposal will be available to present information and answer questions.

10. If the Board is prepared to act, it will request the sponsors work with the Office of the Executive Vice President Finance & Administration prepare an Action Item for an upcoming meeting of the Board. If a divestment action is approved by the Board, then the Statements of Investment Policy and Objectives for the Consolidated Endowment Fund and Invested Funds will be amended. The Office of the Executive Vice President Finance & Administration will prepare a divestment implementation timeline.

*** It is estimated that the review process may take a minimum of one year. More complex issues, or ones with a more significant portfolio impact may involve a multi-year review process. In some cases, a period of shareholder engagement may be pursued in lieu of divestment.
University of Washington
Annotated DRAFT Divestment* Guideline

The Board of Regents (the “Board”) is vested by statute to manage the investment portfolios of the University of Washington (the “University”). Decisions regarding the investment portfolios are geared towards maximizing the resources of the University in support of its primary teaching and research mission. The Board is ever mindful of the endowment as a fund established through private gifts which support donor-specified programs today and in the future.

Ethical considerations have led the Board, from time to time, to engage the University in shareholder activism and/or divestment. Such occurrences are rare. The fiduciary duty of the Board ensures a strong presumption against divestment. Divestment is considered only after all options to address the ethical concern have been reviewed and found unsatisfactory.

In making any determination, the Regents recognize the need for a clear process that allows for University community input, evaluation and articulated criteria to inform the Board in their decision making. No process or set of criteria, however, can be expected to address all situations that might arise. The Board reserves the right to interpret this Guideline as broadly or narrowly as they see fit, consistent with the policies of the University and applicable external laws and regulations.

Criteria for Divestment

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<tr>
<th>The Board will only consider recommendations to divest its endowment of direct holdings in publically held companies if they have been vetted by the Advisory Committee on Socially Responsible Investing (ACSRI) and which meet the following criteria:</th>
<th>Note requirement that all divestment proposals be vetted by ACSRI, a newly created Board Advisory Committee, prior to Board review.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The actions or inactions of the company or companies are deemed “morally reprehensible”, and a. The divestiture will likely have a meaningful impact toward correcting the specified social harm and will not result in disproportionate offsetting societal consequences; or b. The company contributes to harm so grave that it would be inconsistent with the goals and principles of the University.</td>
<td>Earlier draft provided examples of “morally reprehensible” behavior. Language now focuses on social harm.</td>
</tr>
<tr>
<td>Former paragraph: The activities of the company or companies are deemed “morally reprehensible” constituting apartheid, genocide, human trafficking, slavery or systematic cruelty to children.</td>
<td>No change.</td>
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<tr>
<td>2. Divestment is seen to be more viable and appropriate than ongoing shareholder engagement.</td>
<td>New language better captures the intention of the Board to remain neutral on issues where the University community is clearly divided.</td>
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<tr>
<td>3. The requested action is not likely to impair the University’s capacity to carry out its educational mission (for example, by causing deep divisions within the University community).</td>
<td>Former paragraph: The merits of the issue are clearly on one side. If there is more than one side to an issue resulting in a dispute among members of the University</td>
</tr>
</tbody>
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4. There is a broad and continuing base of support within the University community including students, faculty, alumni and staff ** (who believe that action is warranted).

5. A specific company or list of companies based on measurable industry criteria may be targeted for divestiture. If the divestiture is implemented, the University will appoint a third-party provider to identify targeted companies, and conduct ongoing monitoring and research on the targeted companies.

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* Divestment: The sale of specific companies and/or market sectors from the investment portfolio for financial, ethical or political reasons. The process involves ongoing portfolio screening and monitoring to ensure compliance.

** Evidence of University community support may include the following:
   a. Endorsements from student government i.e., the Associated Students of the University of Washington (ASUW) and the Graduate and Professional Student Senate (GPSS)
   b. Endorsements from Registered Student Organizations (RSOs)
   c. Endorsement from the Faculty Senate
   d. General petitions signed by students, faculty, alumni and staff of the University.

Footnotes now include alumni within the base of University community support.
1. Sponsors of a divestment proposal will submit a request for review to the 
   Advisory Committee on Socially Responsible Investing (ACSRI).

2. The ACSRI (or a subcommittee of the ACSRI) will review the proposal to ensure 
   that it meets the criteria specified in this Guideline for consideration. Note that 
   all proposals submitted for review must include at a minimum, endorsements 
   for divestment action by the Board from the ASUW, GPSS and the Faculty 
   Senate.

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   until the next regularly scheduled meeting.

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   the criteria, will be deferred to a later meeting.

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   on the social and ethical aspects of the proposal.

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   Executive Vice President Finance & Administration provide an in-depth analysis 
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be pursued in lieu of divestment.
University of Washington
Advisory Committee on Socially Responsible Investing

Mission and Operational Guidelines

The Board of Regents (the “Board”) of the University of Washington (the “University”) is vested by statute with responsibility for the governance of the University. The Board hereby establishes the Advisory Committee on Socially Responsible Investing (ACSRI), with the following principles.

ACSRI Responsibilities.
1. ACSRI advises the Board, or its appropriate standing committee, on the social and ethical aspects of issues related to socially responsible investing, including:
   a. Proposals to divest submitted by members of the University community which meet the criteria specified in the Divestment Guideline.
   b. Shareholder engagement (letter writing campaigns, proxy voting, sponsorship of shareholder resolutions etc.).
   c. Other matters, as requested by the Board.

2. The evaluation will be conducted in a time-frame that is appropriate to the issue being evaluated and is not limited by the academic year.

3. Upon request by the Board, the ACSRI will review prior approved Board actions related to socially responsible investing for their continuing appropriateness.

Membership and Term.
1. The ACSRI will consist of no more than 12 voting members with consideration given to Tri-campus representation. Member selection will be made from the following groups:
   - 3 faculty members
   - 3 students
   - 3 members closely affiliated with the University, such as staff, alumni or donors
   - 3 members external to the University

2. Two ex-officio, non-voting staff members will serve on ACSRI: a senior staff member from the Office of the Executive Vice President Finance & Administration who will provide management and administrative support to ACSRI and a senior staff member from the Office of the President.

3. The ACSRI members will be recommended by the Governance Committee and approved by the Board after consultation with the President of the University, or his or her designee.
4. Except students who are graduating at the end of the academic year, all voting members will be appointed for staggered two or three year terms, renewable by the Board. There is no term limit on ex officio members.

5. Voting members unable to participate fully during their term will be replaced by the Board prior to the expiration of their terms using the appointment process described above.

Meetings.
1. ACSRI meetings will be held during the academic year (from October through May) with regularly scheduled working meetings in October, December, February, April, and May. Additional meetings may be scheduled – or regularly scheduled meetings cancelled - at the call of the ACSRI Chair. ACSRI meetings are open only to ACSRI members and invited guests.

2. In the first scheduled meeting of the fiscal year, the ACSRI will develop a working plan based upon ongoing proposal review work from the prior year plus outstanding new proposals. Proposals submitted during the fiscal will be worked in the ACSRI agenda as the schedule permits or deferred for consideration to the next fiscal year.

3. The ACSRI Chair may create subcommittees and appoint subcommittee chairs. The subcommittee chairs will provide regular updates to the ACSRI Chair and to the ACSRI.

4. In addition to the working meetings, the ACSRI will hold an annual open forum to provide the University community the opportunity to meet ACSRI members, voice their opinions, and ask questions about socially responsible investing at the University and other related issues. The ACSRI Chair will moderate these meetings and all ACSRI members will be asked to attend.

Voting.
A two-thirds vote (8 voting members) is required to move a recommendation forward to the Board. If there are insufficient members present to meet the quorum when the vote is taken, votes may be taken by email to the ACSRI Chair. All recommendations and reports shall include a summary of minority viewpoints of ACSRI members.

Recommendations to the Board.
1. Recommendations for Board consideration from the ACSRI will be submitted to the Office of the Board of Regents and to the Office of the Executive Vice President Finance & Administration.

2. The ACSRI Chair and other ACSRI members as appropriate, along with the sponsors of the original divestment proposal, will be available at the Board meeting to present information and answer questions.

Reporting.
1. Requests for action submitted to ACSRI will be posted on the ACSRI website. Final disposition of each request submitted will also be published on the website.
2. Decisions of the ACSRI to deny a divestment proposal will be communicated to the Office of the Board of Regents.

3. The ACSRI Chair will submit an Annual Report to the Board which summarizes ACSRI activities during the academic year. This report will be posted on the website.

Staff Support.
1. The Office of the President will manage the ACSRI member selection process.

2. The Office of the Executive Vice President Finance & Administration will provide administrative support to the ACSRI including scheduling meetings, managing member communication and maintaining the ASCRI website.

3. The Office of the Executive Vice President Finance & Administration will work with the ASCRI Chair to develop ACSRI agendas, conduct research including the identification of outside experts, maintain meeting minutes and provide other management support as requested.
Advisory Committees of the Board of Regents

2. Principles that Apply to All Advisory Committees

A. Committee Members

Members of all Board-created advisory committees serve at the pleasure of the Board and include appointments made by the Board for specified periods of time according to the organizational documents approved or authorized by the Board.

B. Meetings

The advisory committees shall establish a regular meeting schedule. Other meetings may be called by the Chair of the advisory committee at any time. The Chair of the advisory committee may invite experts who are not members of the advisory committee to attend specific meetings to provide additional guidance, advice, and information.

C. Indemnification and Compensation

The University shall indemnify members of the advisory committees to the fullest extent permitted by law, the Standing Orders, and Regent Policies of the Board. Advisory committee members will not be paid for service on the committee.

D. Conflict of Interest

Regental members of the advisory committees are governed by conflict of interest rules applicable to regents. Non-regent members shall comply with the following conflict of interest provisions:

1) Beneficial Interest

When a member of an advisory committee knows that the University is considering a transaction in which he or she has or may have a beneficial interest, the member shall (1) alert the Chair of the advisory committee of such beneficial interest, and (2) not participate in the formulation or rendering of advice with respect to the transaction.

2) Best Interests of the University

Committee members shall not participate in the formulation or rendering of advice by the advisory committees where their participation could be influenced by financial or other considerations that would conflict or could reasonably appear to conflict with their obligations to only consider the best interests of the University. Where a member is uncertain about the application of this rule to particular circumstances, he
or she should consult the Chair of the advisory committee, who may seek the advice of the Attorney General's Office as appropriate.

3) **Engagement in Transactions**

Committee members may engage in transactions with the University if the Chair of the advisory committee and the University President (who may consult with the Attorney General's Office as he or she deems appropriate) determine that the member has not participated in the formulation or rendering of advice by the advisory committee to the University regarding the transaction.

**E. Chair and Vice Chair**

The Chair and Vice Chair of the advisory committees shall be recommended by the Governance Committee and approved by the Board. During the absence of the Chair or while he or she is unable to act, the Vice Chair shall perform the duties and exercise the powers of the Chair.

**F. Communication**

The Chair of the advisory committee shall provide quarterly reports to the Board or its designated standing committee.

**G. Amendments**

Amendments to these principles (both those unique to a committee and those held in common) shall be subject to the approval of the Board.
## HISTORY OF SOCIAL INVESTING AT THE UNIVERSITY OF WASHINGTON

<table>
<thead>
<tr>
<th>ISSUE</th>
<th>DATE APPROVED BY BOARD OF REGENTS</th>
<th>ACTION BY BOARD OF REGENTS</th>
<th>IMPLEMENTATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thermal Coal</td>
<td>May 2015</td>
<td>Resolution to divest direct thermal coal holdings and prohibit future direct investment in thermal coal companies.</td>
<td>UW restriction applies to companies whose principal business is the mining of coal for energy generation.</td>
</tr>
</tbody>
</table>
| Climate Change | November 2013                | Investment Policy amended to allow action as appropriate in support of shareholder resolutions and initiating letters of engagement related to climate change. | With Board Approval for shareholder engagement, the Treasury begins implementation of the Global Climate Change Initiatives:  
1. Create new research assistant position to focus on alternative energy and “ESG” (environment, social and governance) investment opportunities.  
2. Increase alternative energy investments by committing up to an additional $25 million.  
3. Incorporate ESG factors into the investment analysis and decision making process.  
4. Explore opportunities for shareholder advocacy on climate change (e.g. voting shareholder proxies, co-sponsoring shareholder resolutions, letter writing and joining national organizations). |
| Sudan   | June 2006                         | Resolution to divest direct holdings in companies doing business in Sudan and prohibit future direct investment. | UW provides investment managers with quarterly lists of prohibited companies from MSCI’s Sudan Targeted List.* The list is targeted on companies whose business activities support the Sudanese government in its continuing sponsorship of genocidal actions and human rights violations in Darfur. |
| Sudan   | June 2006                         | Investment policy amended to allow action as appropriate in support of shareholder resolutions and initiating letters of engagement related to human rights in Sudan. | UW hires student from campus divestment campaign for assistance with research and letters of engagement. |
| Tobacco | January 2000                      | Resolution to divest direct tobacco holdings and prohibit future direct investments in tobacco companies. | UW restriction applies to companies which manufacture consumer tobacco products and/or involved in the leaf tobacco industry. Definition and tobacco company research initially provided by the IRRC and is today provided by another third party provider, MSCI. Restriction limited to companies whose tobacco revenues represent a simple majority of total firm revenues. The University provides investment managers with quarterly lists of prohibited tobacco stocks. |
| Burma   | March 1995                        | Investment policy amended to allow action as appropriate in support of shareholder resolutions related to human rights in Burma. | UW notifies investment managers to vote proxies in favor of shareholder resolutions supporting attention to human rights violations in Burma. The University co-sponsors shareholder resolutions, where appropriate related to human rights violations in Burma. No UW activity in this area since the late 1990s. |
| South Africa | Approved 1996, Restriction lifted October 1993 | Resolution to divest and prohibit future investment in companies operating in South Africa. | UW provided investment managers with lists of prohibited companies researched by the Investor Responsibility Resource Center (IRRC), a third party provider of information on corporate governance and social responsibility issues. |