Approval of Divestment Guideline and Establishment of an Advisory Committee on Socially Responsible Investing, as Provided in the Revised Board of Regents Governance, Standing Orders, Chapter 4

RECOMMENDED ACTION

It is the recommendation of the administration that the Board of Regents:

1) Adopt the Divestment Guideline;
2) Approve the establishment of a new Board of Regents Advisory Committee on Socially Responsible Investing or “ACSRI”;
3) Adopt changes to the Board of Regents Governance, Standing Orders, Chapter 4, Advisory Committees of the Board of Regents, to reflect the addition of the new Board advisory committee and other minor revisions.

BACKGROUND – Divestment Guideline

In June 2016, the Board of Regents (BOR) received an in-depth review of socially responsible investing at the University of Washington and at peer universities. The review was prompted by the marked increase in requests from campus for portfolio divestment by the BOR as a primary tool for addressing social change. From that discussion, the BOR asked the University to develop a divestment guideline and formal process for handling future requests. A draft of the Divestment Guideline was reviewed in October 2016. Regents Blake and Harrell then worked with staff on a revised draft that was reviewed by the full BOR in February 2017. In addition, Regent Wright-Pettibone, the student member of the Board, solicited input from student groups. The recommended action is essentially the same as the draft Divestment Guideline reviewed by the BOR in February with the addition of clarifying language to explicitly recognize the Tacoma and Bothell campuses in addition to the Seattle campus.

BACKGROUND – Advisory Committee on Socially Responsible Investing (ACSRI)

In developing the Divestment Guideline, it was recognized that a robust review process around social issues with the potential to impact the University’s investment portfolios was needed prior to direct involvement by the BOR. The establishment of a new BOR subcommittee with broad University representation will provide a formal and transparent process.

ACSRI membership includes students, faculty and other UW community members closely affiliated with the University such as staff, alumni and donors. Sponsors of proposals will submit their requests to the ACSRI for consideration
STANDING COMMITTEES

BOARD OF REGENTS MEETING

Approval of Divestment Guideline and Establishment of an Advisory Committee on Socially Responsible Investing, as Provided in the Revised Board of Regents Governance, Standing Orders, Chapter 4 (continued p. 2)

along with evidence of University community support. The ACSRI will have bimonthly working meetings during the academic year and one annual forum open to all UW community members. An ACSRI website will be created to provide information on the process and annual reports on committee activity,

A draft of the administrative guidelines for the ACSRI was reviewed by the BOR in February 2017. The ACSRI will evaluate proposals for divestment or shareholder engagement against criteria specified in the Divestment Guideline. The committee will focus solely on ethical and social aspects of an issue. The ACSRI may deny a proposal or recommend that it be presented to the BOR for further consideration.

Approval of the recommended action will result the revision of Board of Regents Governance, Standing Orders, Chapter 4, Advisory Committees of the Board of Regents to reflect the addition of the new subcommittee.

PROCESS AND REVIEW

Earlier drafts of the proposed actions were reviewed by the BOR. The recommended actions were also reviewed by the Attorney General’s Office and the administration including the President’s Office, the Office of the EVP for Finance and Administration, and the BOR Office. Finally, UW student groups reviewed the recommendation and provided input.

This recommended action is materially the same as the draft reviewed in February by the BOR with the addition of clarifying language on membership term limits and to ensure the inclusion of the Tacoma and Bothell campuses. Language regarding periodic review of divestment actions by the committee at the request of the Board was included in a previous draft, but mistakenly identified as missing at the February board meeting. All changes, including the language regarding periodic review, are highlighted.

Attachments
1. University of Washington Divestment Guideline
2. Board of Regents Governance, Standing Orders, Chapter 4, Advisory Committees of the Board of Regents: addition of an Advisory Committee on Socially Responsible Investing (ACSRI)
University of Washington
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

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.

* 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 tri-campus (Seattle, Bothell and Tacoma) 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 least one endorsement 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.
Advisory Committees of the Board of Regents

Advisory committees may be established by the Board of Regents on the recommendation of the Governance Committee of the Board to provide the University with expert advice on such subjects as the Board may specify, in accordance with Article IV, Section 5 of the Board’s Bylaws. All advisory committees established herewith are subject to the principles set forth in Section 2 below.

1. Advisory Committees

A. University of Washington Advisory Committee on Real Estate (ACRE)

The Board of Regents of the University of Washington is vested by statute with responsibility for the management of the real properties of the University, including its Metropolitan Tract located in downtown Seattle. The Board has established an Advisory Committee on Real Estate (ACRE) and adopted the following principles.

1) Membership and Terms

ACRE shall consist of no more than eight members to be appointed by the Board, plus the President of the University who shall serve ex officio. These appointments shall be based on recommendations submitted by the Governance Committee and approved by the Board after consultation with the Chair of ACRE and President of the University (or his or her designee).

One or two of the appointed members shall be selected from the Board. The remaining appointed members shall be experienced professionals of varying backgrounds.

There shall be a three-year term limitation for regent and non-regent members of ACRE, renewable by the Board. Members will be asked to make a minimum commitment of three consecutive years, and shall serve at the pleasure of the Board.

2) Functions

ACRE shall advise the Board (and/or its appropriate committee) and the University President (and/or his or her designee) on matters relating to the management of the University’s commercial income producing properties and other significant real estate investments.

3) Administrative Support

The Senior Executive Vice President for Planning and Management Finance and Administration shall ensure that ACRE has appropriate administrative support services, including secretarial assistance and record keeping.
B. Audit Advisory Committee

The Board of Regents of the University of Washington is vested by statute with responsibility for the governance of the University. The Board hereby establishes an Audit Advisory Committee, with the following principles.

1) Membership and Terms

The Audit Advisory Committee shall consist of no more than eight members to be appointed by the Board. The Chair, Vice Chair, and members shall be recommended by the Governance Committee and approved by the Board after consultation with the President of the University and his or her designee(s).

One or two of the appointed members shall be selected from the Board. The remaining appointed members shall be experienced professionals of varying backgrounds.

There shall be a three-year term limitation for regent and non-regent members, renewable by the Board. Members will be asked to make a minimum commitment of three consecutive years, and shall serve at the pleasure of the Board.

2) Functions

The Audit Advisory Committee shall advise the Board or its appropriate standing committee and the University President, or his or her designee, on matters relating to the University’s financial practices and standards of conduct. The committee is responsible for reviewing and advising on any external and internal financial audits, and internal controls. The committee may, through its Chair or a majority vote of its members, ask management to address specific issues within the responsibilities of the committee.

3) Administrative Support

The Executive Vice President for Finance and Facilities Administration shall ensure that the Audit Advisory Committee has appropriate administrative support services, including secretarial assistance and record keeping.

C. Governmental Affairs Advisory Committee

The Board of Regents of the University of Washington is vested by statute with responsibility for the governance of the University. The Board hereby establishes a Governmental Affairs Advisory Committee, with the following principles.

1) Membership and Terms

The Governmental Affairs Advisory Committee shall consist of no more than eight members to be appointed by the Board. The Chair, Vice Chair, and members shall be recommended by the Governance Committee and approved by the Board after consultation with the President of the University and his or her designee(s).
One or two of the appointed members shall be selected from the Board. The remaining appointed members shall be experienced professionals with relevant backgrounds.

There shall be a three-year term limitation for regent and non-regent members, renewable by the Board. Members will be asked to make a minimum commitment of three consecutive years, and shall serve at the pleasure of the Board.

2) Functions
The Governmental Affairs Advisory Committee shall advise the Board or its appropriate standing committee and the University President, or his or her designee, on matters relating to the University's relationship to federal, state, and local governments and agencies.

3) Administrative Support
The Vice President for External Affairs shall ensure that the Governmental Affairs Advisory Committee has appropriate administrative support services, including secretarial assistance and record keeping.

D. Diversity, Equity, and Inclusion Advisory Committee
The Board of Regents of the University of Washington is vested by statute with responsibility for the governance of the University. The Board hereby establishes a Diversity, Equity, and Inclusion Advisory Committee, with the following principles.

1) Membership and Terms
The Diversity, Equity, and Inclusion Advisory Committee shall consist of no more than ten members to be appointed by the Board. The Chair, Vice Chair, and members shall be recommended by the Governance Committee and approved by the Board after consultation with the President of the University and his or her designee(s).

Up to four of the appointed members shall be selected from the Board of Regents. The President of the University shall be a member ex officio. One member shall be a member of the University of Washington faculty, selected in consultation with the Faculty Senate leadership. One member shall be a UW student, selected in consultation with ASUW and GPSS leadership. One member shall be on or closely associated with the Foundation Board, selected in consultation with the executive committee of the Foundation Board. The remaining appointed members shall be community members with relevant backgrounds.

There shall be a three-year term limitation for faculty, Foundation Board, and community members, renewable by the Board. Members will be asked to make a minimum commitment of three consecutive years, and shall serve at the pleasure of the Board. The student and regent members shall serve one-year terms, renewable by the Board.
2) **Functions**

The Diversity, Equity, and Inclusion Advisory Committee shall advise the Board or its appropriate standing committee and the University President, or his or her designee, on matters relating to diversity, equity, and inclusion for faculty, students, staff, and in procurement and contracting.

3) **Administrative Support**

The Office of the President shall ensure that the Diversity, Equity, and Inclusion Advisory Committee has appropriate administrative support services, including secretarial assistance and record keeping.

**E. Advisory Committee on Socially Responsible Investing**

The Board of Regents of the University of Washington 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.

1) **ACSRI Responsibilities**

ACSRI advises the Board, or its appropriate standing committee, on the social and ethical aspects of issues related to socially responsible investing, including:

- Proposals to divest submitted by members of the University community which meet the criteria specified in the Divestment Guideline.
- Shareholder engagement (letter writing campaigns, proxy voting, sponsorship of shareholder resolutions, etc.).
- Other matters, as requested by the Board.

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.

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

2) **Membership and Terms**

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:

- Three faculty members
- Three students
- Three members closely affiliated with the University, such as staff, alumni, or donors
- Three members external to the University

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

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.

Except students who are graduating at the end of the academic year, all voting members will be appointed for two-year terms, renewable by the Board. During the ACSRI start-up phase, and at other times of high turnover, appointment terms of one, two, or three years may be made to ensure continuity. There is no term limit on ex officio members.

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.

3) Meetings

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.

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 year will be added to the ACSRI agenda as the schedule permits or deferred for consideration to the next fiscal year.

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.

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.

4) Voting

A two-thirds vote (eight 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.
5) **Recommendations to the Board**

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 for Finance and Administration.

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.

6) **Reporting**

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.

Decisions of the ACSRI to deny a divestment proposal will be communicated to the Office of the Board of Regents.

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.

7) **Staff Support**

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

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

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

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.