

Ethical Investing Policy

Overview

Yale was one of the first institutions to address formally the ethical responsibilities of institutional investors. In 1969 Professors John Simon, James Tobin, William Brainard, and Charles Lindblom along with Yale graduate students Charles Powers and Jon Gunnemann conducted a seminar entitled “Yale’s Investments,” which explored the ethical, economic, and legal implications of institutional investments. As a result of the seminar, Simon, Powers, and Gunnemann wrote *The Ethical Investor: Universities and Corporate Responsibility*. Published in March 1972 by the Yale University Press, the book established criteria and procedures by which a university could respond to requests from members of its community to consider factors in addition to economic return when making investment decisions and exercising rights as a shareholder. It remains the definitive work in its field.

The Yale Corporation adopted the guidelines outlined in *The Ethical Investor* in April 1972, and Yale became, according to *The New York Times*, “the first major university to resolve this issue by abandoning the role of passive institutional investor.” The book subsequently served as a blueprint for the ethical policies of a number of universities.

In the academic year following the publication of *The Ethical Investor*, Yale established the Advisory Committee on Investor Responsibility (ACIR). The inaugural committee addressed social responsibility issues including U.S. corporate investment in South Africa, defense contracting, political lobbying, and environmental safety. Later, the Yale Corporation formed the Corporation Committee on Investor Responsibility (CCIR).

The CCIR is composed of Fellows of the Corporation. It recommends policy to the full Corporation and is charged with implementing the approved policy. In discharging its responsibility, the CCIR is assisted by the ACIR. The ACIR is composed of two students (one undergraduate and one graduate), two alumni, two faculty, and two staff members. The ACIR provides advice and performs the practical work of policy implementation for the CCIR. Two of the ACIR’s principal tasks are to advise the CCIR on the voting of corporate proxies dealing with ethical issues and to communicate with companies that might not be in compliance with Yale’s ethical policy on investments.

Past Actions Regarding Major Issues

South Africa

In 1978, the Yale Corporation adopted a policy on investing in South Africa. Emphasizing Yale's deeply held opposition to apartheid, the policy addressed the University's belief that it had "an ethical duty to contribute to the process of peaceful change" in the country. Recognizing that the most effective method of achieving enduring change was through active participation, Yale initiated dialogue with each U.S. based company operating in South Africa in which the University was a shareholder. The focus of these efforts was to promote management's adherence to the principles of fair and equitable employment practices and the elimination of segregation.

To assess portfolio companies' level of compliance with Yale's ethical investing policy, the University sent a ten-member delegation to South Africa in 1986. Comprised of Yale Corporation fellows, faculty, administrators and students, the delegation visited U.S and South African companies to assess their roles in the apartheid system. The delegation met with representatives from three South African universities to discuss actions that might be undertaken to improve and strengthen black education. The fact-finding mission allowed Yale to apply more effective, constructive pressure to align corporate activity with ethical imperatives.

Through its efforts as a shareholder, Yale made significant progress in advancing its message to corporations. In those situations in which it became apparent that a company's actions would continue to be incompatible with University policy, Yale sold its shares. From 1978 through 1994, Yale divested shares of 17 companies operating in South Africa, representing a total market value of approximately \$23 million. In February 1994, recognizing the positive changes occurring in the country, the Yale Corporation lifted all investment restrictions.

Tobacco

Throughout the 1990s, the Corporation thoroughly reviewed the holding of tobacco-related stocks. As a result of the reviews, in 1994 the Corporation established guidelines on voting of tobacco proxies. These instructions were supplemented in 1996, when the CCIR directed the ACIR to vote in favor of well-constructed proxy resolutions that:

- a) call upon tobacco companies to place health warnings about the dangers of addiction, disease and death caused by smoking on all advertising and promotional items for tobacco products distributed throughout the world;
- b) request companies to cease advertising tobacco products to minors, including all uses of the company's brand names and associated symbols for sponsorships;
- c) request tobacco companies to support enforcement mechanisms at all governmental levels to prevent illegal sales of tobacco products to minors;
- d) request tobacco companies to take actions designed to reduce the health risks to minors;

e) call upon tobacco companies to report publicly accurate information relating to the ingredients of their products that have probable adverse health effects.

The Corporation voting guidelines stem, in part, from an ACIR report that found the possibility of social injury in the marketing and distribution of tobacco products, not in their manufacture. As a result, the University chooses to engage tobacco companies in dialogue, hoping to change objectionable policies and procedures.

Sudan

Beginning in 2003, the Government of Sudan and government-sponsored militias engaged in human rights atrocities in the region of Darfur, Sudan. The U.S. government determined that genocide had occurred and might be continuing. As the Sudanese government relies heavily on oil revenues, oil companies operating in Sudan were viewed as providing substantial assistance to the perpetrators of genocide and were therefore deemed complicit.

After conducting research with the assistance of the Yale Law School Allard K. Lowenstein International Human Rights Clinic, the ACIR found that providing instrumentalities of genocide represented a grave social injury and recommended divestment from oil companies operating in Sudan as well as from the general obligations of the Sudanese government. Based on that recommendation, the Yale Corporation voted unanimously in February 2006 to divest from seven oil and gas companies operating in Sudan, as well as from obligations of the Sudanese government. This policy remains in effect today and the ACIR continues to monitor activities in Sudan and annually recommends updates to the restricted company list.

Climate Change

The CCIR and the Yale Investments Office took up the issue of climate change in 2014. Believing that climate change is a grave threat to human welfare, the CCIR issued a public statement on August 27, 2014, adopting new proxy voting guidelines for implementation by the ACIR. Specifically, the guideline provides:

Yale will generally support reasonable and well-constructed shareholder resolutions seeking company disclosure of greenhouse gas emissions, analyses of the impact of climate change on a company's business activities, strategies designed to reduce the company's long-term impact on the global climate, and company support of sound and effective governmental policies on climate change.

At the same time, the Chief Investment Officer sent a letter to all of Yale's active Endowment managers encouraging them to account properly for the internal and external costs of greenhouse gas emissions and to avoid companies that refuse to acknowledge the social and financial costs of climate change. In April 2016, the Chief Investment Officer updated the Yale community on the positive influence of his letter, including sales of holdings deemed inconsistent with the economic approach laid out by Yale.

Private Prisons

For several years, the ACIR looked into the operation of private prisons. In 2018, the Corporation adopted proxy guidelines for issues relating to private prisons which were drafted by the ACIR and endorsed by the CCIR:

Yale will support reasonable, and well-constructed shareholder resolutions related to improvements in the corporate social responsibility of private prisons. Examples of resolutions that would be supported in the future include those seeking disclosure by private prison companies of their political contributions and lobbying activities and the use of contracts with private prison companies that contain incentives based on objective measures of performance such as lower recidivism rates. Other resolutions that would be supported relate to efforts to reduce prisoner rape and sexual abuse and efforts to reduce the high cost of phone calls made by prisoners at private prisons. The University also would support resolutions that request that the boards of directors of private prison companies obtain independent assessments of their success in reducing violence, use of force incidents, disciplinary and grievance systems, contraband, lockdowns and positive drug tests. These examples are meant to be illustrative and not comprehensive as it is not possible to anticipate precisely the full range of issues that might be presented for shareholder consideration in the future.

Assault Weapon Retailers

In 2018, the Corporation adopted a policy regarding investment in assault weapon retailers. Specifically, Yale will not invest in any retail outlets that market and sell assault weapons to the general public. The ACIR determined that mass shootings cause incontrovertible societal harm and retailers supplying assault weapons to the general public cause grave social injury, a conclusion supported by the CCIR. In recommending the policy to the Corporation, the CCIR gave special consideration to various factors raised by the ACIR, including: (1) the distinction between manufacturers and retail distributors of assault weapons, since assault weapons may be used for sanctioned purposes by the military and law enforcement, and (2) the large number of shootings that occur at educational institutions, which is of particular relevance to Yale as an institution of higher education. This policy applies to traditional retail distributors, as well as promoters and dealers who organize and sell assault weapons at gun shows.