

SENATE COMMITTEE ON SOCIAL CONCERNS
MINUTES OF MEETING
JANUARY 26, 2004

[These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate or Twin Cities Assembly; none of the comments, conclusions or actions reported in these minutes represent the views of, nor are they binding on, the Senate or Assembly, the Administration or the Board of Regents.]

PRESENT: Margaret Kuchenreuther chair, Ruth Taylor, Karen Holtmeier, Greg Schooler, Julie Sweitzer, Twyla Treanor, Bobak Ha'Eri, Joel Helfrich, Sarah Keller, Brian Wachutka, Melissa Williams

REGRETS: Barbara Boysen, Susan Von Bank, Thomas Augst, Robert Blair, Kenneth Heller, Mani Subramani

ABSENT: Jennifer Oliphant, Ravi Norman, Michelle Dawson, Kara Ferguson, Joseph Nowak

OTHERS: Sam Sharma, MPRIG; Katie Tharp, MPRIG; Chris Frazier, President's Office; Ted Held, Jewish Community Relations Council; Amy Olson, Hillel Foundation of B'Nai B'Rith

I). Professor Kuchenreuther called the meeting to order.

II). Professor Kuchenreuther reported that she has been in communication with Gary Balas, chair of the Research Committee regarding the Mount Graham issue. The Research Committee has extended an invitation to the Social Concerns Committee to attend their February 9, 2004 meeting to discuss this issue. The Department of Astronomy and American Indian Studies will be invited to present their perspectives. Presenters will be limited to University faculty, staff and students. In addition, Professor Kuchenreuther noted that Claire Walter-Marchetti, a member of the Senate Committee on Equity, Access & Diversity (EAD), has indicated that members of EAD are also interested in attending this joint meeting.

Professor Kuchenreuther suggested sending representatives from the Social Concerns Committee that are familiar with the issue rather than having the entire Committee attend. Professor Kuchenreuther volunteered to do so as well as Joel Helfrich who agreed to take the lead in representing the Social Concern Committee's position on the issue. Julie Sweitzer, depending on her availability, will do her best to attend. Professor Kuchenreuther volunteered to contact Professor Robin Brown, who initially drafted the Committee's position report, to see if he would be available to attend. Greg Schooler also expressed an interest in attending.

Professor Kuchenreuther stated at the next Social Concerns meeting on February 23rd, members will be given an update on what transpired at this joint meeting.

Joel Helfrich announced that he transcribed the portion of the October 30, 2003 Senate minutes dealing with the Mount Graham issue. If members are interested in receiving a copy, they were told to contact Mr. Helfrich.

III). Professor Kuchenreuther called on Melissa Williams to update members on her conversation with Associate Vice President of Finance Richard Pfutzenreuter concerning Lehman Brothers.

Mr. Pfutzenreuter informed Ms. Williams that Lehman Brothers decided to be preemptive and initiated correspondence with the University in its letter dated October 21, 2003. In this letter Lehman Brothers indicated that they have not been involved in tax-exempt financing of private prisons for over two years and that their investment banker who led their municipal private prison financing efforts no longer works for their firm. Mr. Pfutzenreuter stated he knows nothing else concerning this matter.

Because neither Kara Ferguson or Professor Thomas Augst were able to attend today's meeting, the Committee will need to receive their reports at the February 23rd meeting. Professor Kuchenreuther reported that Professor Augst has scheduled a meeting with Carole Fleck, the director of Budget and Finance. In an email message to the Committee he requested that if members have any particular questions they want raised with Ms. Fleck, aside from those brought forward at the December 8th Social Concerns meeting, to contact him as soon as possible. Mr. Sharma would like

Professor Augst to find out if Lehman Brothers is delivering on what it promised in its RFP to the University.

According to Professor Kuchenreuther, Sam Sharma from MPRIG ideally would like the Committee to vote on the Lehman Brothers resolution today. However, this is not possible because:

- The Committee does not have a quorum.
- The Committee has not heard all the information/reports on this matter.

Professor Kuchenreuther hopes to receive reports from Ms. Ferguson and Professor Augst at the Committee's next meeting and bring the matter to a vote. In preparation for the February 23rd meeting, members were encouraged to carefully review the Lehman Brothers resolution introduced by MPRIG. Professor Kuchenreuther announced if members have amendments to this resolution that they would like to bring forward, they should be prepared to do so at the February meeting.

Melissa Williams and Greg Schooler volunteered to amend the resolution. According to Ms. Williams, the current resolution contains some typing errors and she also believes some facts need to be added for clarity. Mr. Schooler added there are also some inaccuracies in the fee amounts outlined in the resolution, which need to be corrected. Mr. Schooler has received the corrected fee amounts from Ms. Fleck and will make the necessary changes.

Professor Kuchenreuther will contact Professor Augst and request that he draft a short report after his meeting with Ms. Fleck and circulate it via email to members prior to the next meeting. In addition, Professor Kuchenreuther will contact Kara Ferguson requesting that she also draft a short report, which would provide members with information comparing the public and private prison industry.

IV). Professor Kuchenreuther announced that none of the members on the Middle East/Divestment Forum Subcommittee are in attendance today. Professor Kuchenreuther noted, however, that after the Committee's last meeting she shared with Ms. VonBank information concerning a first year seminar that was conducted on the Morris campus by Professor Martin

Sampson on this topic. Professor Sampson along with a student whose family are Palestinian refugees and another student who is an Israeli citizen, provided first year students with a very interesting convocation. Professor Kuchenreuther took the liberty of contacting Professor Sampson to let him know that the Social Concerns Committee is dealing with this issue and solicited any ideas he may have to help move the Committee forward. Professor Sampson provided Professor Kuchenreuther with a comprehensive list of individuals at the University with human rights expertise, but noted that he is unaware of individuals at the University with extensive expertise in Middle East issues. He also suggested avenues for potentially getting money to support such a forum. Professor Kuchenreuther forwarded this information to Ms. VonBank and asked that she share it with the rest of the Subcommittee.

In addition, Professor Kuchenreuther, in her conversation with Claire Walter-Marchetti, a member of EAD and Director of the Office for University Women, discovered that Ms. Walter-Marchetti has had a lot of experience in developing forums involving controversial issues. Ms. Walter-Marchetti volunteered her expertise to help develop a format, etc. for the forum. Professor Kuchenreuther shared this information with Ms. VonBank as well.

Professor Kuchenreuther noted that more than likely planning for this forum will need to occur this spring and summer and the actual event will not take place until the fall. Professor Kuchenreuther asked Renee Dempsey, Senate staff, whether the Senate Office has a budget to assist with offering a forum. Ms. Dempsey stated that a written proposal must be submitted to Vickie Courtney, Senate Office Coordinator, who will bring the request before the Budget Subcommittee for consideration.

Members brainstormed about possible funding sources that may be interested in sponsoring this forum. Ideas included: GAPSA, the University Senate Office, the Student Activities Office, CLA Special Events Fund, HHH, Law School, and various other departments at the University. If funds can be secured, does the Senate Office have the ability to manage this money for the Subcommittee through, for example, a separate CUF5 account? Ms. Dempsey volunteered to look into this and report back her findings.

V). Professor Kuchenreuther called on Brian Wachutka to provide members with an update from the Energy Subcommittee. According to Brian Wachutka, the Energy Subcommittee has been familiarizing themselves with the other groups on campus that are dealing with clean energy issues e.g. Initiative for Renewable Energy and the Environment (IREE) and the Sustainability and Energy Conservation Policy Work Group. Mr. Wachutka participated in an IREE meeting and learned that the University does not have an energy policy.

Mr. Wachutka noted that the Sustainability and Energy Conservation Policy Work Group is an initiative by the President's Office, which is being chair by Vice President for University Services Kathleen O'Brien. Ms. O'Brien informed Mr. Wachutka that while this group is looking at some energy issues it is not limiting itself strictly to energy. Brian Wachutka plans to stay in contact with Mr. Phil McDonald of University Services in order to follow the progress of this group. This group has a much more aggressive timeline than the Energy Subcommittee.

The Energy Subcommittee plans to:

- Develop a minimal renewable energy standard.
- Create an on-site energy standard.
- Investigate the use of low-emissions vehicles.

Related to the renewable energy standard, Mr. Wachutka noted that the Morris campus is purchasing wind energy through a program called 'TailWinds' sponsored by the Otter Tail Power Company. Mr. Wachutka discovered that Xcel Energy offers a similar program called 'Windsource', which offers customers the option of purchasing 100 kilowatt (kWh) blocks of Windsource for an additional cost of \$2.00 per block. In Mr. Wachutka's opinion, between these two programs, all the campuses should have the ability to purchase wind energy. Mr. Wachutka also noted that programs are being developed to harness wind energy on native lands.

Next, Mr. Wachutka mentioned the IREE and the Sustainability and Energy Conservation Policy Work Group are looking at becoming involved with the Chicago Climate Exchange (CCX) program. CCX is "a voluntary cap-and-trade program for reducing and trading greenhouse gas emissions." A member

stated this is a fairly controversial program. Professor Kuchenreuther suggested the Energy Subcommittee compile a list of the pros and cons for joining such a program.

A member suggested that because the University purchases virtually all of its power from Xcel Energy, that they ask for a discount on the Windsorce rate.

Professor Kuchenreuther learned that the Otter Tail Power Company plans to support UMM at the legislature in its request for bonding of a generating facility powered by a waste biomass, which will heat water for steam and, also have the ability to generate electricity.

A member informed Mr. Wachutka that the Phillips Neighborhood is buying its energy from a source other than Xcel Energy and suggested Mr. Wachutka look into this. It was further noted that the Phillips Neighborhood was also involved in a fluorescent light bulb give away program and it might be interesting to find out how they were able to fund such an initiative.

Professor Kuchenreuther asked coordinate campus members, Twyla Treanor and Sarah Keller, if they are aware of initiatives on either of their campuses that Mr. Wachutka can investigate. Neither was aware of energy initiatives on their respective campuses but volunteered to look into the matter further.

A member stated that it is important to bear in mind the communities that Xcel Energy impacts e.g. Manitoba Hydro. Because the University purchases most of its energy from Xcel Energy what can it do influence Xcel Energy's behavior. If they Committee thinks creatively about this question there is probably a lot that can be accomplished on behalf of native peoples in Manitoba, as well as native peoples at Prairie Island, etc.

VI). PROXY VOTING - Professor Kuchenreuther reminded members that the Social Concerns Committee has been charged by the Board of Regents to annually review all shareholder resolutions concerning social issues for which the University holds stock and recommend votes for these resolutions. Two handouts were distributed, a proxy voting information sheet and a sample

report format that members will be requested to follow when reporting back to the Committee on their proxy assignments. Professor Kuchenreuther charged Ms. Dempsey with making sure that members who are not present today receive these handouts so they can familiarize themselves with the procedure.

Greg Schooler of Asset Management explained the proxy voting procedure. Once Mr. Schooler receives a list of the resolutions that the Committee will need to vote on, members will be asked to volunteer to research 1 or more resolutions. Professor Kuchenreuther recommended that 3 - 4 days prior to the Committee meeting when the vote will be taken, that members email their reports to Ms. Dempsey. Ms. Dempsey will then electronically distribute the reports to all members for their review prior to the meeting.

Greg Schooler announced that he will be attending a conference in March 2004 sponsored by the IRRC, which will address the current trends in proxy voting. Professor Kuchenreuther stated that she would like Mr. Schooler to provide members with an update on this conference at the Committee's March meeting.

VII). Professor Kuchenreuther announced that she received a call on Friday, January 23, 2004 from Stuart Mason of Asset Management. Mr. Mason needs the Social Concerns Committee to vote on whether the University of Minnesota should be allowed to invest \$15M with the Europe, Australasia, and the Far East (EAFE) Commingled Index Fund for a period not to exceed 6 months while the University looks for a new international equity manager to replace Marvin and Palmer.

Greg Schooler distributed two handouts for the Committee to review:

- A copy of the 1998 Social Concerns Committee's resolution regarding the University's future investments in Myanmar (Burma).
- A spreadsheet outlining the issue and possible investment options.

Greg Schooler provided members with background and other important information to assist them in making an informed decision on this matter.

Mr. Schooler highlighted the following:

- In 1998, the Social Concerns Committee and the University Senate voted to divest from Total Oil, a French company, because of their

- involvement in Myanmar (Burma). Since this resolution was passed, the University has completely divested from Total Oil.
- The University has given notice to its international equity manager, Marvin and Palmer, that it will be withdrawing \$15 million from its account because they are underperforming with respect to the EAFE index benchmark by 50%. (Marvin and Palmer is conservatively expected to return 10% on the \$15 million or \$750,000 over the next 6 months. The EAFE Commingled Index Fund is conservatively expected to return 20%, or \$1,500,000 over the next 6 months).
 - Mr. Schooler noted that the current resolution prohibits the University from investing in Total Oil Company "stock". This EAFE Index Fund is a commingled index fund and is technically not stock. Commingled funds have many participants and these participants do not have a voice in the holdings within the fund. One percent of the EAFE Commingled Index Fund is invested in Elf Aquitaine. Total Oil is a subsidiary of Elf Aquitaine. Therefore, if the University were to invest in this fund roughly \$150,000 of the \$15 million would be invested in Elf Aquitaine or .023% of the entire endowment fund.
 - Alternative investment options for this \$15 million have been extensively researched by the Office of Asset Management and these options include:
 - Deposit the \$15 million in a bank account. If the University were to do this it would earn \$150,000 in interest invested in a money market account returning 2%. However, the University would lose the \$1.35 million in returns it would have earned if this money had been invested in the EAFE Commingled Index Fund. This translates into a \$1,200,000 loss for the University.
 - Buy a basket of futures of all developed countries excluding France. This option would return about the same earnings as the EAFE Fund, but would cost the University about \$55,000 every 3 months because there is a fee attached to purchasing futures securities.
 - Investing in domestic equities and/or futures is NOT an option for the University because it is already overweighted in this area. Because the University will be receiving the \$15 million from Marvin and Palmer in February, there is not enough time to present to the Investment Advisory Committee and Board of Regents a request to change the University's asset allocation policy, nor does the Office of

Asset Management believe it would be a sound investment practice to do so.

To conclude, Mr. Schooler will need members to vote yes or no to the following question: Should the University of Minnesota invest \$15 million with the EAFE Commingled Index Fund for a period not to exceed 6 months?

Member comments and questions included:

- What is the current human rights situation in Myanmar (Burma)? As of last year, human rights violations were continuing to occur. Mr. Schooler has attempted to contact the IRRC for an update this year but has not yet received a response. Unfortunately, despite boycotts by numerous organizations, human rights violations continue to occur.
- Recently, on NOW with Bill Moyers a portion of the program was devoted to the past and present situation in Burma. Members were encouraged to use the information communicated in this program to learn more about the Burma situation. For more information visit the following URL: <http://www.pbs.org/now/politics/burma.html>.
- Is it because Elf Aquitaine is a French company that the University would exclude France from its basket of futures of developed countries? When buying into a futures contract, organizations/individuals are unable to designate what securities they are interested in purchasing. Therefore, to avoid purchasing Elf Aquitaine securities, the University would need to exclude France from its basket of futures.
- One member expressed concern over reversing a decision (the resolution), which was based on human rights violations especially when the amount of money in question represents such a small percentage (.023%) of the University's endowment fund. Mr. Schooler reiterated that the Elf Aquitaine holding represents roughly 1% of the EAFE Commingled Index Fund. Therefore, the University's \$15 million would buy \$150,000 of Elf Aquitaine, which equates to .023 of the University's endowment fund.
- As companies and economies become more integrated, it is possible that Elf Aquitaine/Total Oil may become involved with other companies the University invests in. In order to avoid an absolute zero percent investment in Elf Aquitaine/Total Oil, which could lead to other net gain losses by the University, where should the

University draw the line in terms of divestment? Mr. Schooler stated that this is a very pertinent question that applies to the philosophy of divestment. There is potential for significant cost implications that need to be taken into consideration whenever divestment is being contemplated. Total Oil represents a concrete example of the cost to the University for divesting. It is a quantifiable fact that with the current market conditions and the underperformance by Marvin and Palmer that over the next 6 months their returns will only be half that of the EAFE Commingled Index Fund.

- Is this a temporary concession to the resolution? Yes, the University is asking for a 6-month suspension of the resolution in order to allow it time to find a new international equity manager who would comply with the University's investment requests.
- Did Chief Investment Officer Stuart Mason of Asset Management bring this issue to the attention of the Board of Regents? No, Mr. Mason discussed the matter with Associate Vice President of Finance Richard Pfitzenreuter who indicated it should be brought to the Social Concerns Committee for a decision.
- Why is the University asking for a 6-month suspension of the resolution as opposed to another period of time? According to Mr. Schooler it will take roughly 6 months to hire a new money manager to replace Marvin and Palmer. Mr. Schooler added that one positive fact about Marvin and Palmer is that their 7 - 10 year returns are above their benchmark. Unfortunately, their 5 year and under returns have consistently underperformed. By withdrawing \$15 million of the University's \$63 million invested in Marvin and Palmer, hopefully this will serve as a wake up call to them.
- Would it be possible for the University to direct the EAFE Commingled Index Fund not to purchase Elf Aquitaine/Total Oil with the University's funds? No, commingled funds are made of many investors contributing significant amounts of money and they do not entertain requests from individual investors on which companies to invest in.
- In general, socially responsible investing is a difficult task not only from an institutional perspective from an individual perspective as well. There is oftentimes a cost associated with socially responsible investing. Mr. Schooler stated there would be a cost to the endowment fund if the University is put in a position to absorb a net

- gain loss with this transaction. The Social Concerns Committee is being put in a position to make a decision for the recipients of the income distributions of endowment fund e.g. the Cancer Center, scholarships, faculty salaries, etc. On the other hand, it was noted that if the University chooses to invest even a small percentage of its endowment fund in the EAFE Commingled Index Fund, people in Burma will be affected.
- If the University opts not to invest in the EAFE Commingled Index Fund and remains steadfast with regard to its opposition to human rights violations in Burma, it should go public with a statement to this effect. Such a stance could potentially benefit the University in terms of recruiting, public relations, etc. Because the University took a position on this issue sometime ago, it should not back down now just because it is being put in a difficult position. Once one exception is made it can lead to more and more exceptions.
 - Unfortunately, divestment from Total Oil by the University as well as other organizations, which was intended to send a message to them to stop human rights violations, seems to have had little if any impact. Whatever decision the University makes regarding this matter will not affect Total Oil it will only affect the endowment fund.
 - What is the Committee being asked to vote on? Mr. Schooler stated the Committee is being asked to vote on whether the University of Minnesota should invest \$15 million in the EAFE Commingled Index Fund for a period not to exceed 6 months. At the end of 6 months what happens? A new international equity manager will be hired to handle these funds and any money the University has invested in the EAFE Commingled Index Fund will be pulled out. With the new international equity manager the University will be able to stipulate that there shall be no investments in Total Oil.
 - Could it take longer than 6-months to find a new international equity manager? According to Mr. Schooler he doubts it would take longer than 6-months. If the University knows it only has 6 months to find a new international equity manager, it will respect this deadline.
 - Is Total Oil still operating in Burma? Yes.

Because there is no quorum at today's meeting, voting cannot take place on this matter. Professor Kuchenreuther requested Renee Dempsey, Senate staff, to provide members with the minutes of this discussion as soon as

possible so they can familiarize themselves with the issue. Some members asked whether they could cast their vote now before the meeting is adjourned. Professor Kuchenreuther agreed to let those members with an opinion on this issue vote now via paper ballot. Names must be put on the paper ballots to avoid any possibility of someone voting twice. For those who are either uncomfortable voting today and/or for those not present, voting will be done electronically.

A member asked that the Social Concerns Committee reaffirm its commitment to this issue. Professor Kuchenreuther agreed to put this request on the February 23rd agenda for discussion. She encouraged members to educate themselves on the situation in Myanmar (Burma).

VIII). Hearing no further business, Professor Kuchenreuther adjourned the meeting.

Renee Dempsey
University Senate