SENATE COMMITTEE ON SOCIAL CONCERNS
MINUTES OF MEETING
OCTOBER 9, 2006

[In these minutes: Divestment from Sudan]

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

PRESENT: Mani Subramani, chair, Joseph Marchesani, Jennifer Oliphant, Peter Hiniker, Brandi Hoffman, Richard Lidstad, Elizabeth Richardson, Benton Schnabel, Julia Washenberger, Carolyn Chalmers, Greg Schooler, Kenneth Heller, Catherine Jordan, Mira Reinberg

REGRETS: Todd Tratz, Amelious Whyte, Katherine Fennelly, David Fox, Ajay Skaria, David Gysbers

ABSENT: Craig Hassel

GUESTS: Professor Norman Bowie, Carlson School of Management; Bill Cunningham, social investment advisor, Creative Investment Research; Stuart Mason, chief investment officer, Office of Asset Management

I). Professor Subramani called the meeting to order, welcomed those present and asked members and guests to go around the room and introduce themselves.

II). Professor Subramani thanked todayÕs guests for their participation in todayÕs meeting where the committee would be spending time thinking about and discussing the UniversityÕs investment choices, particularly as it relates to its Sudanese holdings.

Bill Cunningham, social investment advisor, Creative Investment Research, began by providing the committee with information on his background and Creative Investment Research, a SBA 8(a) certified, socially responsible investment research, development and management firm. To supplement his presentation, Mr. Cunningham distributed a PowerPoint presentation, which focused on divestment and the Sudan.

Regarding the situation in the Sudan, Mr. Cunningham reported that on July 23, 2004 the U.S. Senate and House of Representatives acknowledged that a genocidal situation was occurring. Since that time, several universities and state legislatures have divested from companies that do business in the Sudan of which Mr. Cunningham cited several examples. He turned members attention to a California bill in particular, which permitted the state to divest of its Sudanese holdings. The reason he believes this bill is especially noteworthy is twofold:

1. It prohibits the state's huge public pension systems — the California Public Employees Retirement System (CalPERS) and the State Teachers Retirement System (CalSTRS) from investing in companies with active business ties in the Sudan.
2. It provides legal protections for the University of California, which guards it against liability that might result from divestment from Sudan.

In Mr. CunninghamÕs opinion, this law shows a growing sensitivity to issues related to divestment. Liability issues are very important considerations, which the University will need to examine should it decide to divest from Sudan. What is the level of risk the University would be exposing itself to should it decide to divest?

While acknowledging that the University has an excellent investment staff, Mr. Cunningham warned that it can be difficult to get objective investment advise from many investment managers. Not all investment managers are incented to give truthful investment advice.

Should the University decide to divest he suggested it should follow these steps:

- Identify target companies.
- Conduct a risk/return analysis.
- Contact identified companies and give them three months to show that they have begun taking substantial action in response to the situation in Sudan.
- Proceed with divestment from unresponsive companies; complete this process within twelve months.

According to Mr. Cunningham, companies that meet the following criteria may want to be targeted for divestment:

- Contribute to government revenue.
- Bestow minimal benefit to the countryÕs underprivileged.
- Demonstrate no substantial corporate governance policy regarding the situation in Darfur.

Next, Mr. Cunningham turned members attention to lists of companies that meet this criteria as it relates to the situation in the Sudan.

Mr. Cunningham went on to say that an organizationÕs investment structure may not allow it to divest. He explained different types of investment structures:

- Internally managed versus externally managed. Investments are either managed internally by an organization or externally by a fund manager. Most universities and cities and some state institutions use external managers; although naturally there are exceptions.
- Separately managed versus commingled accounts. Commingled accounts are accounts that contain other investorsÕ money, and separate accounts would contain only one organizationÕs money.
- Actively managed accounts are accounts where an investment manager actively selects which companies/investments will be in a fund versus passively managed investments where the manager chooses companies based on market index instead of scrutinizing how individual companies in a fund are performing.

It is most difficult to divest from actively managed, commingled investments, and easiest to divest from separately managed accounts and in-house investments.

Another reason not to divest is that staying invested may actually allow the University to serve as a positive force for social change by using a collaborative approach with the companies that are invested in the Sudan. The University could dialogue with these companies to enlighten them about why they should not be doing business in the Sudan.

Regardless of whether or not the University divests its Sudanese holdings, it should:

- Maintain its objectivity and not be influenced by investment/research manager(s). Maintaining objectivity allows the University to learn about divestment without directly risking returns. A decision to divest will undoubtedly be controversial for the University.
- Act swiftly and effectively. The University is a little behind the curve in terms of having a broad impact on this issue as other institutions have already acted.
- Authenticate the UniversityÕs position, and build on its reputation as a world-class research institution.

In closing, Mr. Cunningham thanked members for their time and attention.

Professor Subramani asked Professor Bowie if he had any comments with respect to Mr. CunninghamÕs presentation. In Professor BowieÕs opinion, it was an excellent presentation. He noted that when he served as chair of this committee it annually reviewed all shareholder resolutions involving social issues for which the University held stock and recommended votes on each of these resolutions.

Mr. Bowie stated that his research and teaching interest center around business ethics. With this said, there are certainly reasons for both divesting and not divesting. He noted the ÔharmÕ case is quite clear when it comes to the atrocities that are occurring in Sudan. The Sudan situation is unlike movements to divest, for example, from Israel where the ÔharmÕ case is not clear.

Next, Professor Subramani asked Mr. Stuart Mason, chief investment officer, to provide the committee with an understanding of the UniversityÕs financial involvement with Sudan. Mr. Mason also thanked Mr. Cunningham for his presentation, which laid out the issues very well.

Mr. Mason noted that since he was hired four years ago, the make-up of the UniversityÕs portfolio has changed. During the 1990s and early 2000s, the University was heavily invested in the public stock and public bond arenas. Over the past four years the University has been attempting to reduce the public stock and public bond arenas to much lower portions of the portfolio. While the University still has exposure in the public markets, it does so in an enhanced index fashion. Today, for example, the University owns no U.S.-based, large-cap public stocks.

In terms of its international investments, the University has a mix of exposures in both large and small investments, which are invested in both developed and less developed countries. Many of these investments, but not all, are invested in actual stocks. Before moving on, Mr. Mason made it clear to the committee that his comments are about the UniversityÕs endowment. The UniversityÕs endowment is a billion dollar pool of assets that funds University activities. He added that Board of RegentsÕ policy dictates that all endowment investments are made through outside managers. This policy is very different from that of Harvard, for example, which largely manages its endowment internally.

Mr. Mason noted that four of the UniversityÕs international stock managers factor into todayÕs discussion. These include:

1. An actively managed, single account, which contains large-gap investments of a global nature in developed countries. This account contains no companies that are domiciled in Sudan and has no governmental exposure there. This account, by the way, excludes Total Elf Fin, which this committee recommended that the University not own.
2. A small cap stock portfolio, which is an actively managed pooled (commingled) account. The investments in this account are in developed countries, with no exposure to Sudan.
3. A commingled emerging markets account. This manager buys fixed income or bond securities and stocks in less developed countries. The University has a $20 million commitment to this manager. Because this manager owns Sudanese central bank notes the University does have Sudanese exposure here. This direct exposure was put on the books 6 – 8 years ago, and has since been frozen by the U.S. government; therefore, this manager is prohibited by law from selling its position. The University has had conversations with this manager who is looking for opportunities to sell this position whenever it can. Because this is a pooled account, should the University decide to divest from Sudan, it would be forced to stop investing with this manager.
4. An international large cap index account. Mr. Mason noted that because the University has a prohibition on investing in Total Elf Fin, this index is being replicated at a fairly considerable annual expense of approximately $34,000.

In Mr. MasonÕs opinion, the committee should think about the parameters it wants to establish for approaching this issue and how narrowly or widely a position it wants to take should it decide to divest. The University has investments with direct exposure to the Sudanese government (Sudanese central bank notes) and indirect exposure in companies with possible Sudanese ties (e.g. Siemens and ABB). In terms of companies with an indirect exposure in the Sudan, the committee needs to explore what impact they are having on the actual situation in the Sudan.

A member asked what is the total value of the Sudanese central bank notes held by the University. Mr. Mason stated that the UniversityÕs exposure is just under $100,000, which the University considers a very small investment. This exposure is a government central bank bond, which cost .09 cents or .10 cents on par value, and the last time it traded it did so at .50 cents, thus the $100,000 value. The investment thesis on this exposure is that the value will increase to $1 as the economy stabilizes and the UniversityÕs $100,000 investment will turn into $900,000. Mr. Mason reminded members that this particular portfolio, which is actively managed and commingled leaves the University with two options: (a). convince others in the pool to sell this position once it can be sold or (b). exit the account. In the past few years this portfolio has had approximately a 30% return rate.

In response to a question, Mr. Mason clarified that the University does not actually own the international large cap index portfolio (#4) he mentioned earlier. Instead, it owns a look alike because of the UniversityÕs prohibition on owning Total Elf Fin, which is part of the account managerÕs international large cap index. He stated that this portfolio gives the University more flexibility than some of its other accounts because of this replication feature. This portfolio contains approximately $200 million of the billion in the UniversityÕs endowment, and represents about 20% of the UniversityÕs endowment investments.

Mr. Mason was asked to explain why the Sudanese central bank bond, which is included in one of the UniversityÕs portfolios cannot be sold. He stated that there have been a number of U.S. governmental actions, which have resulted in prohibitions or sanctions being placed on Sudanese activities; thus, this investment cannot be sold.

To clarify, a member asked if there was any way the University could divest itself of this investment. Mr. Mason stated that the only way for the University to divest itself from this position would be to terminate the investment manager. He added that typically when the University hires a manager it interviews dozens. Through the evaluation process, this commingled emerging market manager was determined to be head and shoulders above the rest.

A member stated that divesting from government bonds really has no impact on a government. Yes, this statement is true. Now that this was clarified, the member asked whether the University has a policy of buying government bonds or investing with a manager that purchases governmental bonds. If not, maybe this is something that should be discussed.

In trying to measure the impact the University can have on this issue a member summarized what he heard thus far and stated that if the University divests its Sudanese government bonds it would be making a symbolic statement. He posed the question to the committee that maybe it should go on record opposing the purchase of Sudanese or other foreign governmental bonds. Would such a statement have the same impact as divesting? Mr. Mason suggested the committee consider developing a policy that the University will not own securities in Sudanese corporations, banks, etc., and then from there decide how narrowly or widely this policy should be applied. For example, should it include other corporations that are major players in the Sudan? Mr. Cunningham noted that there are proposed resolutions on the Sudan Divestment Task Force website, which can be found at the following URL: http://www.sudandivestment.org/home.asp He added that the committee may want to go on record taking a stand against the situation in Sudan.

A member asked whether a statement from this committee or any of the other groups that have taken a stand on this issue would influence investment managers. In Mr. MasonÕs opinion, these managers are reasonably sensitive, and he believes they pay attention.

A member asked Professor Bowie to comment on how the situation in Sudan compares to what took place in South Africa and if there is a way for the University to make an investment in Sudan that could actually do good. Professor Bowie stated that the issue in South Africa was that there were a number of companies that made the argument that if they would be permitted to stay they could make a difference by setting a good example and engage the country in developing antiapartheid policies. IBM is an example of a company that stayed in South Africa despite pressure to leave. However, the situation in the Sudan is different. It seems virtually impossible for a company to set a good example because it is up against a brutal, totalitarian regime, which is committing genocide and reeking chaos. In some ways, according to Professor Bowie, there is more of an argument to do something that could affect the situation in Sudan over South Africa, but he is unaware of any company that feels it could be effective in Sudan.

Professor Subramani asked Professor Bowie if he had any suggestions at all for how the University could make a positive difference as was just mentioned. Professor Bowie stated that as part of todayÕs discussion he appreciated hearing that the Office of Asset Management would be willing to work with the committee on this issue. The committee will need to merge its opinions with the financial expertise that will provided by the Office of Asset Management in order to develop an effective strategy. Professor Subramani thanked Professor Bowie for participating in todayÕs discussion.

On the positive investing front, Mr. Cunningham mentioned that MercyCorps (http://www.mercycorps.org/) is the only group that is on the ground in the Sudan, and they have had problems getting in and out. American Friends, Lutheran Worldwide, and Catholic Relief Services help support MercyCorps. MercyCorps, however, is active in several third world countries.

As an investor, Professor Subramani asked Mr. Mason what the committee could do to make a positive difference. Mr. Mason stated that the situation in Darfur is very difficult, and, unfortunately, it is not the only place in the world where bad things are happening. He added that by virtue of what the University does and where it is located, etc. he did not readily see how the UniversityÕs investment activity could impact the Darfur situation.

A member asked who supports the Sudanese government and/or its genocide policies. Mr. Cunningham stated, in his opinion, that the Sudan situation is a regional struggle involving the Middle East, particularly the oil producing regions, which have extended their reach down into the Sudan. Other factors that likely have played a role include Bin LadenÕs involvement in the region the differing philosophies of Arab Muslim

Imperialism and Christianity. In response a member stated if this is the case then maybe the University should consider divesting its holdings in Kuwait, Saudi Arabia, etc. Mr. Mason stated that the committee may want to make a statement that it does not want the University to invest in companies that would in any way support the Sudanese government e.g. PetroChina, Sinopec, Total Elf Fin. While he does not want to tie the UniversityÕs investment hands, this would be a way take a position and make a social statement about the situation.

There are so many issues around oil and the Middle East a member stated; therefore, if a statement is made it should not be too broad because the purpose for making the statement would be lost. The only influence the University has is its public relations clout, not economic clout. Mr. Mason stated it is important that the University to be on the right side of high profile issues.

As the committee grappled with how best to deal with this issue, Mr. Cunningham made the following recommendations:

- Join the Sudan Divestment Task Force as a University/investment group. By doing this, it puts the University on the right side of the issue.
- Ask the Office of Asset Management to conduct a risk/return analysis. By conducting this analysis the University will be in a position to decide which companies it wants to invest in.
- Publicly go on record that the University has a positive investment strategy related to the Sudan, and explore new socially responsible investment options.

In light of time, members quickly threw out ideas for what the committee may want to do in response to this issue. The following ideas were mentioned:

- Create, with the assistance of the Office of Asset Management, an ÔembargoÕ list, which would be a list of companies that the University does not currently own, and does not want to own in the future.
- Create a social investing policy. Instead of making a statement one country at a time, develop a broader policy. Mr. Mason stated that a broader policy would help the Office of Asset Management in its selection process.

Professor Subramani noted that this discussion would be continued at the committeeÕs next meeting on November 13, 2006.

III). Hearing no further business, Professor Subramani adjourned the meeting.

Renee Dempsey
University Senate