



March 17, 2015

President Christopher L. Eisgruber
Princeton University
1 Nassau Hall

Via email

Dear Chris,

This year has been an exceptionally busy one for the Resources Committee of the CPUC. We have received a proposal to divest endowment holdings from fossil fuel companies; two conflicting petitions regarding investments in companies doing business in the occupied territories of Israel; and a request to develop sustainable investment strategies to guide endowment investment practices. In discussing all of these submissions, questions have arisen about the values, goals, and ethical standards the University applies in making investment decisions. In each case, petitioners have expressed a clear desire for consistency between what they perceive to be the core values of the University and its practices in all domains, including investment choices.

The committee had a very helpful conversation with Andy Golden about the principles that guide the selection and oversight of the managers who are engaged by the University to make investment decisions, Mr. Golden also outlined the rigorous standards applied by the Princo board and staff to investment decisions and described the negative impact investment constraints would have on endowment returns.

The committee has deliberated on all of the issues raised by the community. Our members have a variety of opinions about how to address the trade-off between the ideal of consistency between values and practices and the desire to maximally fund our core activities of teaching and research. We appreciate the interests of the campus community for consistency in applying the University's basic values and in better understanding the various elements of the University's investment standards. To that end, the committee believes that it would be very helpful for the University and Princo to clarify for the campus community the guidelines, policies, and principles that are applied in managing the investment of the endowment. We recognize that the Princo directors, Princo staff, and our outside investment managers adhere to a set of best practices that aim to produce outstanding returns while protecting the University from reputational risk, illegal or unethical behavior, and unintended or ancillary risk of any particular long-term investment. We believe the community would welcome an articulation of how these best practices are determined and applied, and of the range of goals that the University seeks to achieve.

The proposal submitted by the Princeton Sustainable Investment Initiative (PRII) may illustrate the situation as we observe it through the committee's lens. PRII points to the University's comprehensive Sustainability Plan and our commitment to mitigate the effects of climate change both through research and teaching, and through ongoing efforts to change operational practices to reduce the campus carbon footprint. PRII interprets these commitments as a demonstration of a core University value, and proposes the development, by an ad hoc committee, of a set of guidelines that would be used to apply similar commitments in making investment decisions (such guidelines might recommend divestment). In addition, PRII recommends becoming a signatory of the Principles for Responsible Investment (PRI) and the Carbon Disclosure Project (CDP). The petitioners argued that such signatures, while primarily symbolic, would provide a useful framework for good practices and would enhance the University's standing in a world that is increasingly concerned with adherence to ethical and responsible principles that go beyond legal obligations.

With regard to divestment, the University's existing and well-articulated guidelines for assessing proposals regarding divestment and dissociation have been invaluable in informing the committee's consideration of proposals of this kind. As we have discussions with members of the University community about a broader range of investment-related issues, it would be helpful to be able to make reference to an articulation of the guiding principles that undergird the University's overall investment practices and to clarify the application of the principle of disassociation.

The committee is well aware that the University has a strong tradition of not taking political stances and does not use its investment decisions to try to influence the behavior of others. At the same time, we learned that some of Princo's managers do consider environmental, social and governance factors in assessing the business risk of their investments. The committee believes that it would be helpful to have clarity about how Princo considers these factors so that the community better understands and appreciates these efforts.

As you know, the Resources Committee is asked to "consider questions of general policy concerning the procurement and management of the University's financial resources" and to consider issues related to investment responsibility and socially responsible investment in the context of investment objectives that aim to provide financial support for the teaching and research that are at the heart of the university's mission. We believe that clarifying the process for selecting and interacting with managers, articulating the characteristics deemed most important in managers, describing the elements of best practices that Princo takes into account, and elaborating on the ethical and reputational goals that are of concern to the Princo board and staff would be of interest to the University community, and helpful to us as we carry out our responsibilities.

In summary, we observe a sincere interest on the part of the University community for clarification of our standards and principles, for a better understanding of when the University takes action and is willing to incur costs for the sake of such principles, and for a more thorough examination of the trade-offs involved in making such decisions as well as an evaluation of the transparency with which they are made. Our committee therefore conveys to you a request for clarification and guidance, and is willing to support this effort as you may see appropriate.

We would be happy to answer any questions you may have about the nature of our request and about why we believe this would be an opportune time to make such an effort.

With best wishes,

A handwritten signature in black ink, appearing to read 'MFEL', with a long horizontal stroke extending to the right.

Marc Fleurbaey
Chair of the Resources Committee

CC: Professor Lynn Loo
Professor Denise Mauzerall
Mr. David Schwartz GS
Mr. Jacob Cannon '17
Mr. Dallas Nan '16
Ms. Carolyn Ainslie
Ms. Jennifer Birmingham
Ms. Leila Shahbender
Ms. Karen Jezierny



President's Room
Nassau Hall
Princeton, New Jersey 08544-0015

April 15, 2015

Professor Marc Fleurbaey
Woodrow Wilson School
Robertson Hall

Dear Marc,

Thank you for your letter of March 17. I appreciate that the Resources Committee has been busier than usual this year, and I am grateful to you and to the other committee members for addressing issues so thoughtfully and conscientiously. These issues are important to the University, and I accordingly welcome the opportunity to respond to the questions raised in your letter.

I take the heart of the letter to be the request, articulated most fully in its penultimate paragraph, for

“clarification of our standards and principles, for a better understanding of when the University takes action and is willing to incur costs for the sake of such principles, and for a more thorough examination of the trade-offs involved in making such decisions as well as an evaluation of the transparency with which they are made.”

As I understand the question, it goes well beyond decisions about the endowment. The University takes politically controversial positions in multiple contexts, including, for example, when it formulates campus policies and when it engages in legislative advocacy. I agree with the committee's apparent thinking that issues about the endowment are best viewed in light of a much more general vision of the University's mission and purposes, and so I hope that you will not mind if I begin by mentioning some basic ideas that may perhaps be obvious, but that are in any event fundamental to my answer.

Princeton, like any great research university, aims to influence society principally by the scholarship we generate and the people we educate, not through economic clout or institutional position-taking. A commitment to robust debate and freedom of inquiry is essential to the quality and credibility of the scholarship and teaching that we do. Because the University seeks to provide an open and unbiased forum for scholarly contestation about key issues of the day,

Princeton must be very careful about when and why it takes an institutional position about contested issues.

A General Presumption against Taking Stands on Political Issues

We accordingly maintain a general presumption against taking stands about political issues, and we make exceptions only in a narrow range of circumstances. One exception involves circumstances in which the University must resolve a contested moral or political question because of an obligation to people (including applicants, faculty, students, and staff) or entities (including the environment on and around our campus) where we exercise direct authority or control or have specific responsibilities. For example, race-conscious admissions practices are controversial, but we must nevertheless decide whether to take racial and ethnic diversity into account when selecting among applicants. Gay rights are controversial, but we must decide whether to provide the same benefits to gay couples that we provide to heterosexual ones. Environmental policy is controversial, but there is widespread scientific consensus that carbon emissions do damage to the environment, so we must decide whether we will take actions to reduce the carbon emissions from our campus.

In one respect these choices may not count as a genuine “exception” to the University’s general presumption against taking political stands. We make them not for symbolic reasons or in order to send a message, but rather because they present choices we have to make in carrying out the activities and operations of our institution and our campus. For example, Princeton has no way to remain neutral about the value of racial and ethnic diversity in its own admissions process: we either attach a positive value to it or we do not. We recognize that while we do not make such choices for the purpose of taking political stands, one can infer political and moral positions from them. We try to be as transparent as we can in communicating the positions we take and why we take them.

The second exception is advocacy on behalf of policies that directly affect our core activities of research and education. Princeton actively takes positions in support of funding for research and education, academic freedom, the right of colleges and universities to pursue racial and ethnic diversity, and other policies that affect our ability to carry out our mission. We believe that our distinctive expertise and our obligation to serve the best long-term interests of this University justify our advocacy regarding issues directly affecting higher education even if they are controversial, and we recognize that if we did not take a stand in public debates about them, we could not count on others to do so on our behalf.

The third exception, and the one that has proven most relevant to questions about investment policy, is that we refuse to allow the University to benefit from activities or practices that the University community as a whole regards as seriously inconsistent with a core university value. Because of the University’s deep regard for diversity of opinion and for the positive value of association, we have construed this exception narrowly. For example, we maintain relationships with other institutions of higher education around the world, including institutions in countries that do not share the same respect for values of academic freedom and free speech that we believe essential to scholarly inquiry. But when a sustained moral consensus of the

University community has existed—for example, against apartheid in South Africa and against genocidal violence in Darfur—the University has appropriately acted to disassociate itself from the immoral practice itself and from those who sought economic benefit from it (the University’s guidelines regarding divestment and dissociation are well described on your website, <http://www.princeton.edu/vpsec/cpuc/committees/rc/guidelines/GUIDELINES-FOR-RESOURCES-COMMITTEE.pdf>).

The Presumption against Political Stands Applies to Management of the Endowment

The University’s presumption against taking political stands applies with full force to the management of its endowment. Alumni and friends make gifts to Princeton’s endowment to support the University’s mission. We are fortunate to receive gifts from people who have fundamentally differing political views, but who share a commitment to free inquiry and to the value of research and education. We are obliged to use and invest their funds on behalf of the mission for which they are given. Our donors might hope, for example, that their gifts will produce leaders and generate research that alleviate the suffering caused by poverty in the world, but it does not follow that we may transfer their money to charities that fight poverty, or that we may use it for political advocacy on behalf of welfare programs or foreign aid. Our donors could have made their gifts to those causes had they wished to do so. They placed their trust in us because they believed in the power of teaching and research, and we are obliged to keep faith with them.

All other things being equal, we have an obligation to invest the endowment in ways that maximize its capacity to support Princeton’s teaching and research mission over the long term. As Andrew Golden explains in the memorandum attached to this one, PRINCO’s long-term perspective requires the incorporation of ethical perspectives on decisions: to generate the durable returns that the University is seeking, our managers must pursue sustainable strategies that take full account of legal, reputational, and political considerations. In general, however, we do not apply any political overlay of our own to these judgments. That approach is consistent with the basic principle that I mentioned at the outset of this letter, a principle holding that Princeton should influence the world through the quality of the scholarship it generates and the people it educates, rather than through economic clout or institutional advocacy.

Of the three exceptions to the University’s general presumption against taking political stands, the first two have no application to its investment policy. First, the University has no direct authority or control over the interests in which it invests, and it need not take political stands about them in order to manage its endowment. I have sometimes heard people deny the latter proposition. They say that if *divesting* takes a political stand, then *not divesting* must involve an equal and opposite political stand. I do not agree. A decision to divest from, for example, energy companies requires a political judgment about the morality of what energy companies are doing. So, too, would a decision to favor energy investments over other investments on political grounds. Except when there is a sustained moral consensus on campus, as I cited earlier, we would not instruct PRINCO to refuse to make investments, or to make investments, on political grounds. In following a policy that asks managers to maximize long-term investment value, subject to the

considerations that Mr. Golden describes, we make no political judgment, positive or negative, about energy companies or overall environmental policy.

We take this position with full appreciation for the importance of scientific and policy issues related to the environment; in fact, we have significantly expanded our commitment in recent years to research and teaching in these areas. As I said earlier, we are committed to the idea that the University should exert influence by providing an unbiased forum for teaching and research of unsurpassed quality, not by trying to exercise economic clout or institutional advocacy.

Unlike the choices I described earlier (about, for example, whether to take race and ethnicity into account when admitting applicants to Princeton, or how much carbon we are willing to emit into the atmosphere), the arguments made in favor of divestment often focus entirely on the messages that the University would send by its decision. Proponents of divestment usually recognize that even the largest university investments are tiny by comparison to the overall capital markets. Universities have no special control over the companies in which they or their managers invest; other investors will seize economic opportunities that universities abandon. The argument for divestment depends on sending a symbolic message, and that is precisely what we cannot do without jeopardizing the free exchange of ideas and freedom of inquiry on campus, except in those rare circumstances when there is a widespread and sustained consensus of the University community that association with a particular company or set of companies, or with a particular activity, seriously conflicts with a core University value.

The third exception—which pertains when the University community as a whole determines that the activities or practices of a company or companies are seriously inconsistent with a core university value—is the one that has been applied in the past with regard to the University's investment portfolio; it has the support of the trustees (who have the ultimate responsibility for deciding how the endowment is invested) and should continue to govern our conduct in the future. When we make such a judgment, its implications reach beyond the management of our endowment. If we believe that we should not be associated with a company or an activity as a matter of our investment policy, then so too we ought to disassociate from it in all other aspects of our operations—we ought not to purchase products or accept gifts from it, nor should we form partnerships with it or facilitate its recruitment activities.

Further Observations Related to Energy and the Environment

I would like to close with some further observations related to issues about energy and the environment, since that is the topic that seems most to have prompted your letter. Given this university's commitment to influence the world by providing a fair and unbiased forum for scholarship and teaching, rather than by using its economic clout or institutional advocacy, it would be a profound mistake to create an investment policy that took political stands regarding the business activities of energy companies. These companies do not meet the disassociation standard. Every member of the Princeton community associates with energy companies and benefits from what they do. We all purchase their products. The University accepts gifts from them and from the alumni who work for them. Our scientists partner with them. Our students

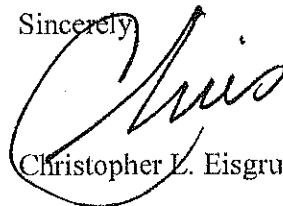
seek jobs with them and we welcome their recruiters. We seek their advice on issues of sustainability. Questions about energy, the environment, and sustainability are among the most important that the world faces—but they are questions that arise not out of the conduct of a few bad actors but rather out of the conduct of all of us. We must all find ways to reduce the damage that we cause to the environment—and that is why the University, which shares in this ethical obligation, seeks to reduce damage to the environment from its campus and other activities under its control.

The University's reputation as a fair and unbiased forum for teaching and research is as important in this area as in any other. Our scientists' research is making a powerful case about the urgent need for action to protect the environment, and about what the world must do to meet that need. The persuasiveness of that research depends both on its rigor and on the integrity of the scholarly forums in which it is developed and tested. If the University itself behaves in a manner that is politically partial, we weaken our capacity to contribute to this debate in the way that is most needed, and as we are uniquely capable of doing—by providing authoritative and impartial scholarly expertise.

I hope that these reflections help to answer the questions posed in your letter. Please let me close where I began: by thanking you for the time and consideration that you have devoted to these topics, and for the opportunity to address issues that are fundamental to this University.

With best wishes,

Sincerely,



Christopher L. Eisgruber

Attachment

P.S. As noted in my letter, I append a memorandum from Andrew Golden, the president of PRINCO, that offers helpful perspectives on the role that social responsibility considerations play in the PRINCO investment program.

**Princeton University Investment Company
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April 13, 2015

To: President Eisgruber

From: Andrew Golden

Re: The role of social responsibility in PRINCO's investment program

Thank you for the opportunity to illuminate the role of social responsibility considerations in the day-to-day management of the PRINCO investment program. While there is much information available on the CPUC Resources Committee website and in other places on the protocols (and the reasoning behind them) for considering proposals related to divestment and disassociation, and there has been much discussion of actions taken by the University with respect to apartheid in South Africa and genocide in Darfur, there is much less awareness in the broader University community about the ways in which PRINCO takes social responsibility considerations into account on a regular basis in overseeing the investment of Princeton's endowment.

As you know, PRINCO partners with about 75 external investment management firms, each of which already is, or shows promise to become, a world-class expert in a specific investment specialty. We seek through this approach to produce the very high returns that we must perpetually compound in order to finance excellence in teaching and research, not just for today's Princeton, but for the Princeton hundreds of years from now. The mission of assuring that future Princeton students and faculty will have at least as many resources as the current generation is formidable — a small difference in annual investment gains compounds to an enormous difference in assets over time. For example, if our compound annualized returns during my 20-year tenure here were just one-tenth of one percent less than what they were, the endowment would be about \$700 million smaller, which would require a cut of about \$30 million from today's operating budget.

Optimizing a roster of managers requires science, craft, and art. The process involves qualitative judgment and constructive engagement with our managers so that together we can become better investors and build a superior program. The best decisions can never be made formulaically. They require consideration of social issues as well as purely economic issues, and a fine grain look at facts and circumstances specific to each case.

The endowment's mission, like the University's, is focused on the longest term. Most of the endowment's investments are purchased with the intent of being held for multiple years. As a result, it is natural for our managers, when considering investing in a company, to assess risks and opportunities that will face those companies in the future as well as those facing them today.

Consistent with this long-term perspective that we expect from our managers, PRINCO itself regularly considers how the quality of an investment might evolve over time. Making this assessment involves a collection of judgments about factors that extend beyond a company's economic positioning today. These factors include potential regulatory changes, technological evolution, alterations to the surrounding economic environment, and reputational risks. Obviously, neither we nor our investors have a crystal ball — we cannot predict how laws or technology or the economy or reputations will evolve. We believe, however, that applying an ethical perspective provides a useful guide to analyze these kinds of issues: we believe that, in many, if not most cases, where a need or an injustice exists, decent social, economic, and political systems will adjust to address it. There is nothing inevitable about this view. We adopt it as a matter of conscious choice. Some people might take a much more cynical view of the human situation. But at PRINCO we believe that these kinds of ethical judgments provide two benefits to us. First, they assure that we are sensitive to moral perspectives concerning a host of important social considerations. Second, they often illuminate considerations that ultimately have economic consequences.

Although we cannot reduce the role of ethical analysis to a simple statement, it is significant. A few examples illustrate how it affects our decision-making.

Sixteen years ago we initiated a program of timber investment. Over the course of developing this program, we had conversations with the PRINCO Board, the Trustee Finance Committee, and prospective timber managers that led us to conclude that the wise choice in this area was to require that our timber managers have their practices certified as sustainable by an external entity such as the Forest Stewardship Council (FSC) or Sustainable Forestry Initiative (SFI). In making that decision we learned that sustainable forestry practices can sometimes involve counterintuitive actions. For example, sometimes cutting more trees is better from an environmental standpoint than cutting fewer would be. While it is not always true, in this particular case having our managers engage an outside certification entity seemed an effective, efficient mechanism to help the pursuit of good stewardship and the management of reputational risk. Although it was not by any means the primary motivation driving the decision, the FSC and SFI certification also made sense economically — consumer demand was and is such that certified sustainably produced wood products result in higher profits, despite higher costs of production.

In other cases we may apply a different set of considerations. For example, consider the question of investing in companies that extract fossil fuels. Given the fact that it is impractical for fossil fuel extraction to completely cease, we might conclude that society would be better off if those who were in the business of extracting fossil fuels did so in a manner that was more environmentally protective and energy efficient, recognizing that fossil fuel extraction is one of the highest energy-intensive business activities. In that regard, let me quote from a memorandum we sent recently to the PRINCO Board, discussing a commitment we are making to an energy manager:

Of note, [XYZ firm] stands out for its close attention to the unique environmental risks of energy investing. The firm makes stringent adherence to all health, safety, and environmental regulations a focal point of company governance... The firm recently began tracking the carbon intensity of its portfolio relative to the fossil fuel industry as a whole, and we are confident that [XYZ] exercises the utmost care in pursuit of its strategy.

I offer this quotation to provide a real-time snapshot of the types of conversations and thoughts that are part of our investment decision-making.

A key criterion in selecting managers is whether or not we can expect them to be good partners with us. We expect that managers will extend this concept of partnership to other aspects of their business, including holding the management of the companies in which they invest to a similar high standard. Our managers recognize that good company managements will consider whether they are acting in good partnership with relevant stakeholders beyond owners, including employees, customers, and the communities in which they operate. We do not expect the considerations of these constituencies to be equally weighted; we do expect though that the various constituencies will be treated fairly.

We and our managers follow the highest business ethics standards. We expect our managers and the management of companies in which they invest to follow, at a minimum, relevant "Best Practices." And while it may go without saying, we expect our managers and the management of companies in which they invest to follow the spirit, not just the letter, of laws and regulations.

Because of the complexity of considerations, it is not possible to create a simple, exhaustive, ongoing listing of dos and don'ts. Rather, what can be done is to assure that thought is given to important issues, and that we discuss these issues with our managers. A recent example of what I mean is a discussion we had with one of our venture capital firms about the fact that some aspects of a particular social network company created risk that the company's app could promote cyber-bullying. The manager identified this risk, and decided to not invest in that company for that reason. This manager is an aggressive, competitive investor, out to create high returns. Yet the firm's partners examine the full consequences of its investing and make reasonable judgments about social responsibility as well as economic return.

We do several things to assure that we are well educated in matters of social responsibility. We are involved in two different networks of peer endowment offices so that we can keep up-to-date on best practices of investor responsibility. We attend conferences on social responsibility topics. To give a sense of our proactivity, in 2003, long before fossil fuel investment attracted significant attention on this campus, I attended the Institutional Investor Summit on Climate Risk at the UN.

President Eisgruber
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While it is hard to describe our approach to social responsibility with succinct generalizations, the fact is that our complex, distributed investment process does promote social responsibility, even while making superior returns our primary concern. For example, even though we operate without any requirement to promote environmental sustainability, over the past decade we have made about \$1.5 billion of investments that specifically do so.

I hope the above sheds some light on how matters of investor responsibility are engaged at the micro-level as we pursue our fiduciary responsibility on a macro level to generate the resources that are essential to support the University's mission.