

Responsible Investment

Education for Sustainable Living Program-Action Research Team

Final Report, Winter and Spring 2012

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Executive Summary

The Responsible Investment team was made a part of the Education for Sustainable Living Program (ESLP) Action Research Team (ART) program this year after the UCLA Foundation expressed the need for a team to help the university transition to socially and environmentally responsible management of its endowment. As the first team of this sort, and without any pre-existing structures within the Foundation, we began by conducting research on universities that had responsible investment committees already in place. We compiled our findings into guidelines that would help set up an advisory committee for the Foundation members, implement a voting structure regarding changes in investment practices, and amend the UCLA Foundation investment policy and mission statement to reflect the school's values.

Before we could begin working towards either of our objectives, we first had to become familiar with the topic ourselves. As a group of interdisciplinary undergraduate students, we had only a vague understanding of the concept of socially responsibly investment and how it could relate to UCLA. The first weeks were spent educating ourselves on the practice that we came to define as informed investment decisions meant to further positive social and environmental efforts. It occurred to us, from our initial unfamiliarity with responsible investment, that the general student body would also have a limited understanding of the topic.

To meet our objectives, we focused on two goals: increasing awareness of responsible investment among the student body and working with the UCLA Foundation to make concrete changes in the university's endowment investment practices. We met our first goal by successfully planning and hosting a speaker panel marketed as "Coffee, Donuts, and Networking". The panel featured speakers from the private investment sector, UCLA Foundation, and a professor from the Anderson School of Management. The speaker panel

exposed students to responsible investment, its importance, the issues it addresses, and ways individuals can become involved with it on campus. We also designed a supplementary pamphlet to educate participants in detail about the efforts and progress being made in this area, and the ESLP program's involvement. The participants' engagement with our speakers during and after the panel, and the survey feedback we received following our panel demonstrated that the event was well received, and that our efforts increasing awareness off responsible investing on campus had paid off.

With our research and the drafting of our statement, we have followed the exemplary example set by Stanford in the area of responsible investment. Since 1971, Stanford has been committed to its' very own responsible investment statement, which continues to provide their Board of Trustees and Advisory Panel with guidance. Their statement outlines the process, structure, and amendments for addressing university and shareholder concerns regarding corporate business policies and practices that may deter social justice. Based on Stanford's model, we have begun to develop guidelines and a mission statement for the Foundation that are personalized to suit a public institution such as UCLA. The goals the Responsible Investment Team hopes to accomplish require ongoing research and outreach, and as the founding team, we have put forth the groundwork for future Responsible Investment Teams to build upon.

Project Overview

Julie Sina, Vice President of Finance and Chief Financial Officer and Treasurer of the UCLA Foundation, approached ESLP with the idea to start a Responsible Investment Action Research Team. She expressed the need for a student committee at UCLA that would help the school transition to more socially and environmentally responsible management of the UCLA endowment.

The purpose of the endowment is to ensure the continued funding of UCLA's programs through returns on investments. It is largely made up of private donor contributions, though all contributions go towards a larger investment pool for the purpose of maximizing returns and minimizing investment and administrative costs (Endowment and Finances). At UCLA, these investments are managed by the UCLA Investment Company, a wholly owned subsidiary of The UCLA Foundation (Endowment and Finances). The exact distribution of money into different funds and portfolios is quite complex, but the Foundation's main goal is to ensure growth with prudent risk. Lacking within the Investment Company is a mission statement regarding responsible practices other than those outlined by the University of California General Endowment Pool Investment Policy Statement (Endowment and Finances). Unfortunately, this statement has few clear commitments towards this goal other than a commitment to not invest in tobacco companies, so we argue that this document is insufficient in guiding the company to make more socially and environmentally conscious investment decisions. Furthermore, there are currently no committees in place, meaning responsible investment practices must be built from the ground up.

Some of the goals that we had in mind for this project included setting up an advisory committee for Foundation members, implementing a voting structure regarding changes in investment practices, and amending the UCLA Foundation investment policy and mission statement to reflect the school's values.

Our main objectives for these past two quarters have been to raise awareness of responsible investment issues among the student body and to work with the UCLA Foundation to make concrete changes in endowment investment practices. We successfully hosted a speaker panel with Elana Pianko, a Financial Advisor from Morgan Stanley, Stephanie Zielonka,

Director of Treasury at the UCLA Foundation, and Professor Magali Delmas from the UCLA Anderson School of Management and Institute of the Environment and Sustainability. The goals for this project were to educate the student body about responsible investment and push for more student involvement so that the Foundation can be made aware that this is an issue students care about. This panel was successful in achieving its goals; a survey that was sent out to participants revealed that a high percentage of attendees feel they learned valuable information at the panel and that their interest in responsible investment increased after attending the panel. Attendees also expressed interest in becoming more involved in responsible investment issues at UCLA.

Background on Responsible Investment at UCLA

The UCLA Investment Company was formed in late 2011, and now manages the UCLA endowment. The entity is overseen by the UCLA Foundation Board of Directors, and manages the roughly \$2 billion endowment fund. The Investment Company appoints and hires investment managers to protect and grow the endowment's assets according to appropriate levels of risk and time horizon. Currently, the Investment Company's investment policy complies with the one overarching University of California statute that endowments shall not be invested in tobacco companies (UC General Endowment Pool Investment Policy Statement). Apart from this policy, there are no other limitations regarding the companies and funds that the university's assets hold.

Investment managers have a fiduciary duty to their clients first and foremost to protect and grow their wealth. The concept of socially responsible investing also considers environmental, social, and governance (ESG) factors of corporations which an institution or individual seeks to invest in. Socially responsible investment provides a second screen on top of the financial value and returns of a stock. Currently, several American private universities such as Columbia, Georgetown, Yale, and Stanford have incorporated advisory bodies specifically to

address environmental, social, and governance concerns related to their holdings of public corporations' stocks. Such advisory committees provide a channel for members of the university community to voice their concerns and communicate with the financial controllers about social injustice, environmental degradation, and any harmful corporate behavior that causes substantial social injury and can also hurt the value of the stock later on.

By installing a similar advisory body in the UCLA Foundation, the university's investment practices can better reflect and uphold the university's values. Public institutions such as UCLA have a great deal of money to manage, and there should not be a discrepancy between a university's proclaimed values, and those that it promotes through financial activity. The goal of the Action Research Team for Responsible Investment is to "get the ball rolling" towards creating an advisory body that will address proposals submitted by members of the UCLA community regarding social and environmental concerns.

Responsible investment promotes firms with social and economic sustainability, which can translate to good long-term investments. Clean compliance records, good labor and employee relations, and fair treatment of the environment and communities in which firms operate can be a proxy of good management, and arguably a sustainable competitive advantage.

Initial Conditions

As this is the first year that there has been a Responsible Investment Action Research Team as part of the ESLP program, our group began with a clean slate. The first task we had to accomplish was to educate ourselves on responsible investment. Maanya Condamoor, one of our group leaders, had worked with the subject previously, but for the rest of the team it was little more than a vague concept. After meeting with Becky Miller, UCLA graduate and Sustainability Analyst at UCLA Housing, we were able to gain some insight into why previous movements for

Responsible Investment at UCLA had failed. She believed it was due to lack of student interest, and lack of communication with the UCLA Foundation. She also introduced us to the Responsible Endowments Coalition, a group which works with universities on the east coast to help responsible investment movements establish themselves and truly impact campus communities. Their website served as a valuable resource for us as we moved forward throughout the year. Though this was not much information, it did provide us with some building blocks and an idea of what our major obstacles might be as we moved forward.

To further our knowledge, we researched what actions other schools had taken in the fields socially and environmentally responsible investing. We began to consider creating an advisory committee because our research showed they had been successful at other schools, particularly at Stanford, the school we decided to model our efforts after (Investment Responsibility at Stanford University). After initially meeting with our stakeholder Julie Sina, we were given the additional goal of compiling a detailed report on the work other schools had been doing with regards to responsible investing. This task coincided nicely with our own personal goals of researching other schools and educating students by putting on a speaker panel, so we decided to pursue them both.

Another aspect that we really had to educate ourselves on before we could begin the majority of our work was the underlying organizational structure of the UCLA Foundation and UCLA Investment Company. Initially, the website seemed confusing and we did not have a good idea of what was controlled by whom, but after spending more time on the website and meeting with members of both organizations, the structure and how to find the information we needed became clearer, giving us important sources of information.

Research Methodology

The team gained a feel for where the UCLA Foundation stood on the possibility of establishing an advisory committee for responsible investment by meeting with several members of the Foundation. Maurice Salter, Chair of the UCLA Foundation, and George Letteney, Interim President and Chief Investment Officer of the UCLA Investment Company, were both enthusiastic and supportive of the creation of an advisory committee, which is promising news for future Action Research Teams working in this field. The team leaders also met with Allison Baird-James, Associate Vice Chancellor and Corporate Financial Services and Controller, as she was involved with Stanford's responsible investment practices prior to coming to UCLA. We also looked to further our own understanding of responsible investment in the context of universities by studying institutions that have already established successful advisory committees for responsible investment. Among these schools are Yale, Stanford, and Georgetown - private institutions. Public universities are behind in this area, possibly because they face more obstacles in establishing such structures, as they deal with a larger and more indirect organization structure. It may be due to the fact that public institutions receive funding from taxpayer money, and consequently are subject to a more bureaucratic process, and held more accountable for their actions. We found that university communities with a responsible investment advisory committee have successfully brought change to the way their institutions invest endowment funds. In 2006, for example, violence in Sudan's Darfur region caused a wave of student movements at MIT, UCLA, Yale, Stanford, Brown, and a handful of other universities. This put pressure on university endowment managers to divest in companies with dealings in Sudan (Rucker). At MIT, for instance, the Advisory Committee on Investor Responsibility met and

eventually presented a recommendation to the MIT Corporation to divest in certain companies who did business in Sudan; the university eventually did divest (Zainabadi).

In looking at institutions with existing committees on responsible investment, we observed the set-up of the committees as well as their operating procedures as a model for how UCLA's future advisory committee may be structured. Most committees have 10 to 12 members, including undergraduate and graduate students, investment professionals, alumni, and members of the endowment or investment management bodies.

The topic of responsible investment is not well-known, especially among the student community. In order to gauge student interest and promote awareness on campus, the Responsible Investment Action Research Team hosted a speaker panel and networking event on responsible investment. Three panelists spoke on April 18th, 2012, in Kerckhoff Grand Salon on campus, on the topic of responsible investment and how the UCLA Foundation and students could be involved in bringing this practice to our campus. Our panelists were Magali Delmas, a professor at the Institute of the Environment and Sustainability and Anderson School of Management at UCLA, Elana Pianko; a financial advisor from Morgan Stanley; and Stephanie Zielonka, Director of Treasury, Banking and Business Services from UCLA External Affairs. The event attracted around forty-five students who were interested in either sustainability issues, investments, or both. To finance our event, we used funds allotted to the Institute of the Environment and Sustainability through the DART Corporation.

Cost Analysis

Funding	Item	Amount	Amount Spent
DART	1 Pitcher	\$5.00	\$5.00
DART	5 Glasses	\$2.50	\$2.50

DART	2 Platters of Mini Croissants	\$24.00	\$24.00
DART	2 Dozen Biscottis- Plattered	\$24.00	\$24.00
DART	3 Dozen Assorted Donuts	\$33.00	\$33.00
DART	3 Gallons of Free Trade Coffee	\$34.50	\$34.50
DART	1 Gallon Free Trade Decaf	\$11.50	\$11.50
DART	4 Gallons Iced Tea	\$35.00	\$35.00
DART	2 Gallons of Iced Water	\$6.00	\$6.00
DART	1 Gallon of Water in Pitcher w/ice	\$3.00	\$3.00
Food Total		\$171.00	\$171.00
Service @ 10% of Food Subtotal		\$17.10	\$17.10
TAX @ 8.75% of Food Subtotal		\$14.96	\$14.96
GRAND TOTAL TO PAY FOR CATERING		\$210.56	\$210.56
DART	Pamphlets	\$90.00	\$90.00
DART	Thank You Cards	\$8.00	\$8.00
DART	Name Tags	\$5.15	\$5.15
TOTAL DART FUNDING		\$313.71	\$313.71

Table 1. This table outlines the funding our team received from DART, and how the money was used for our speaker panel and networking event.

We applied for the DART fund to pay for the ASCULA catering, publicity materials, and miscellaneous other items used at our speaker panel. The DART application was very flexible and made it easy for us to apply and receive the funds necessary for our event.

Key Findings

A major breakthrough of ours was learning the structure of the UCLA Foundation and UCLA Investment Company. This helped us understand who we should appeal to most for responsible investment decisions. The way it is set up allows very little university control over

investments; decisions are almost entirely in the hands of the Investment Company. The Investment Company reports to the Investment Committee within the UCLA Foundation. The Foundation hires and approves private investment managers who control the endowment funds, but currently, managers have full discretion to choose what assets to hold, as long as it aligns with their fiduciary duty (Frequently Asked Questions 1).

In addition, putting on our speaker panel helped us realize that there was interest in responsible investment on campus. However, there is still the issue of lack of campus awareness and confusion amongst students about what responsible investment is. After our panel, we sent out a survey to attendees in order to collect feedback on the event. 100% of surveyed attendees exhibited interest in responsible investment following the panel, and 100% felt they learned something of value. We received positive ratings on all three speakers, with one attendee commenting that in the future we should ask more pre-prepared questions, making the panel more moderated. We learned that an important aspect of accomplishing our goals is coming up with a clear and concise definition of responsible investment and our expectations for what UCLA should do to implement responsible investment policies. In addition, we realized that we needed to make the concept of responsible investment more tangible to students in order to encourage them to learn more about it and advocate for it, which was very valuable information to use as we moved forward. As a resource, we read Statements on Responsible Investment from other schools. We learned through this research that many private schools have had success with responsible investment movements, whereas public schools are trailing. Stanford University and Georgetown University proved to be good models on which to base our work, although as mentioned earlier, we need to translate the work of private schools to meet the needs of a public institution.

Future Recommendations

For the Responsible Investment team that will take on this project next year, we recommend that they continue with our current goals of implementing change and raising awareness. As for the actual work on improving UCLA's investment practices, in spite of our many attempts, we were unable to set up any reliable communication with the schools that have already committed to investing in socially and environmentally responsible funds. It might therefore be helpful to set up early and effective communication with another school, such as Stanford University, to get advice on how to talk with Foundation members to enact tangible change. This can be tied into further research on the types of advisory committees that are present at other schools and how they are structured. This may be particularly helpful when coming up with a model for voting processes and other related procedures.

Additionally, a bill any future Action Research Teams should be aware of is the SB 8 Public Disclosure Bill (SB 8). In essence this bill, passed on May 26, 2011, requires all public investment funds to be disclosed to the public. This has pushed UCLA towards greater disclosure, meaning that the Foundation is currently working on making these investment records publicly available. Once this data can be viewed, it will contribute to greater transparency and be extremely helpful in deciding how the UCLA Foundation's investment practices measure up against those of other schools and public institutions.

With regards to the UCLA Foundation and UCLA Investment Company, we would recommend implementing an advisory board as the easiest and most effective way to ensure UCLA's values and commitments to socially and environmentally responsible investing are being upheld. These types of advisory committees have seen much success at other schools.

Challenges and Difficulties

However, our team faced many challenges which hindered our progress throughout the two quarters during which we took part in this program. From the beginning, the largest obstacle and impediment for our action research group was not being able to reach and communicate with our stakeholder. Defining the objectives of our research and setting goals to accomplish was virtually impossible without an understanding of what our stakeholder's vision was and within what structure we would focus our work towards. Even though our leaders put forth vigilant efforts to contact our stakeholder, the complex schedule of our stakeholder made it difficult for her to accompany our immediate needs. In the meanwhile, our group became proactive in educating ourselves about the topic of responsible investment by reviewing the efforts that have been put forth by other universities and brainstorming possible trajectories our research could take.

It was also a challenging for our research group to solidify intents and plans of action without any formal approval or guidance. After having decided to take an educational focus with our research, we began planning for a panel to speak on the topic of responsible investment. Here, we initially faced ambiguities in programming, including, who we wanted to speak and how we would contact them and the location and date of such event, and doubts about the applicability of our panel to our stakeholder's vision. Planning and scheduling for the panel occurred slowly and sporadically as we were finally able to meet with our stakeholder and better understand what her objectives and expectations were for our research group. As we learned that our efforts in putting on a panel was not entirely aligned with our stakeholders vision, which was for our research group to compile a guideline for setting up a responsible investment committee based on the processes of other universities that have implemented such committees, we had to reevaluate our approach towards the project so that we could accompany both our original goal

and the goal of our stakeholder. Though we did eventually determine how to combine our resources, both educational speakers and members within the UCLA Foundation, in a way that is most conducive to both our goals, this process did take the better part of Winter quarter, and our team might have been better spent reaching out to other schools with responsible investment practices in place.

Our team was able to put diminish the extent of our challenges early on and prevent further difficulties through our combined persistence and initiative. As a result of multiple and consistent efforts in contacting and scheduling a meeting with our stakeholder, our team was able to establish fundamental relationships with members of the Foundation and developed a network with individuals that are key in providing us with the information and resources needed to reach our goals. After defining our objectives, setting deadlines, and delegating responsibilities between our group members and seeing that they are being followed through, we were able to host a successful speaker panel and networking event, in addition to drafting a statement on responsible investing for UCLA Foundation members to look over and increasing awareness of our project within both staff and student circles.

Conclusions

This year, our Action Research Team made a lot of headway and laid the groundwork for future progress in years to come. Responsible Investment is a topic that we hope to make more mainstream at UCLA. With increased student awareness and participation, and with an Advisory Committee at the Foundation, UCLA stands a chance to join the ranks of the private universities who have already implemented practices and set standards and guidelines that reflect their respective ideologies. We are confident that with consistent effort, responsible investment will come to be an integral feature of the UCLA Foundation and its management of the endowment

funds. The enthusiasm and determination of students at UCLA will undoubtedly produce a promising legacy, and continued achievement for the Responsible Investment Action Research Teams in the future.

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