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DUKE Open

Cover Letter & Proposal

DukeOpen

The Coalition for Endowment Transparency and Investment Responsibility

To the Board of Trustees:

We represent a group of students concerned about Duke's commitment to socially responsible investment. Although the creation in 2004 of the Advisory Committee on Investment Responsibility (ACIR) went a long way in aligning the University's academic and social mission with its investment strategies, we believe that it is time for the University to take additional steps.

The Board of Trustees should instruct DUMAC to disclose its direct investments and the names of funds through which it invests indirectly in a biannual report available to members of the Duke community. We also request that the University create three work study positions to review investment holdings, improve the mechanism by which community members raise concerns about investments, construct a website devoted to investment information, and establish a Social Choice Fund.

Despite arguments to the contrary, transparency does not threaten returns and is consistent with both the University's fiduciary duties and its commitments to social responsibility. Indeed, disclosure is the only way to ensure that the University is abiding by its responsible investment standards.

Endowment transparency is a growing trend among US academic institutions. Already, between 28% and 36% of schools regularly report some, if not all, of their investments to the entire university community. For 36% of these universities, the reports include a list of mutual funds and, for 39%, they include a list of fund managers. For some universities, the reports include an account of all direct holdings. Although Duke has made significant strides in investment responsibility, it has so far failed to pursue endowment transparency. Continuing in this failure threatens Duke's public image as a leader in academic, social, and environmental progress. Given the status and size of Duke and its endowment, Duke's decision to pursue a more open endowment would have huge symbolic importance and brand the university as a leader in Socially Responsible Investment (SRI).

We recognize that The Board of Trustees has a fiduciary responsibility to Duke's stakeholders. Far from sacrificing that responsibility for social and environmental priorities, endowment transparency presents significant economic advantages. As reported by Financial Times, companies representing many different industries are moving towards greater transparency and social responsibility. The diversity and success of these companies is evidence of the long-term profitability of transparent investment. Moreover, funds that adopt the principles of Environmental, Social, and Corporate Governance (ESG) responsibility in their investment decisions enjoy greater long term returns on their investments. The oldest SRI index (established in 1990) has seen higher rates of return for the past 20 years than the S&P 500, a traditional index.

Transparency is the first step in achieving true Socially Responsible Investment and the benefits associated with it. A good-faith approach to investment responsibility must include a means for community members to identify problematic investments. Without knowing DUMAC's holdings, community members cannot identify potentially injurious holdings and bring them to the attention of the President's Special Committee on Investment Responsibility (PSC), ACIR, or the Board of Trustees.

Contrary to conventional wisdom, a wealth of evidence reveals that endowment transparency does not compromise competitiveness. University endowments that are transparent consistently achieve returns that match, and often exceed, those that are not. In Fiscal Year 2012, Dartmouth and Yale - both of which report some or all endowment holdings to the community - led the Ivy League in investment returns and significantly outperformed Duke. These universities continue to attract excellent fund managers and have been heralded as leaders in investment responsibility. Simply put, concerns about competitiveness are unfounded.

It is in every interest of the University to pursue a more transparent endowment. Doing so promises to produce significant financial, reputational, and social benefits for Duke at little cost and with virtually no added risk. The trend among universities is clear, and if Duke hopes to remain a leader in social responsibility, it must act now.

We thank you for your interest and urge you to consider our proposal.

Sincerely,

Abhishek Bose-Kolanu, Ph.D. '17, James B. Duke Fellow

Casey Williams T '14, Angier B. Duke Scholar

Jacob Tobia T '14, Benjamin N. Duke Scholar

Lucas Spangher T '14, Angier B. Duke Scholar

Our Proposal

Disclosure:

We request that The Board of Trustees instruct Duke Management Company (DUMAC) to disclose (a) securities held directly by the University and (b) the names of funds and other commingled investment vehicles through which the University invests indirectly. This report shall include the names of all direct holdings, the share volume of each, and the dates of all purchases and sales; a list of all funds and commingled investment vehicles in which Duke invests, and an account of all proxy votes. This information shall be published in a biannual report available to members of the Duke community. **[1]** The University shall post the report in an electronic document library devoted to endowment holdings. The Chair of the Advisory Committee on Investment Responsibility or his/her representative shall present the report twice annually at a meeting open to members of the Duke Community, the date, location and time of which to be determined by representatives from the Duke Student Government. Additionally, the Duke Student Government shall be responsible for publicizing the meeting to undergraduate and graduate students, faculty, and staff to maximize attendance opportunities from the Duke Community.

Creation of a website to house investment information:

In order to ensure that community members have access to all investment information available to the Duke community, the University should create a website to house (a) biannual reports of endowment holdings; (b) a complete account of proxy voting guidelines; (c) all reports produced by the PSC, ACIR and student oversight coordinators, and (d) minutes of PSC and ACIR meetings. This website should also centralize all information regarding the PSC and ACIR, including their founding documents, their responsibilities and procedures, and a list of current members and their roles. The creation of the website shall be the responsibility of the University, and it shall be maintained and updated by the student oversight coordinators. An example website can be found here.

Reform of the President's Special Committee and the Advisory Committee On Investment Responsibility:

The current process for bringing concerns to the President's Select Committee lacks standardization and clear guidelines. Accordingly, in keeping with the procedures outlined in the PSC and ACIR's founding documents (found here), we request that the University formalize the process by which community members bring concerns about investment activities to the attention of the University. The PSC should continue to be responsible for receiving and reviewing community members' concerns, and groups or individuals concerned about specific holdings should contact the committee's chair and clearly identify in writing the issue(s) that they would like the PSC to consider. This narrative should also indicate what action(s) the individual or group would like to recommend to the PSC and be accompanied by documentation that substantiates the claims and recommendation included in the narrative.

Furthermore, the ACIR currently meets on an ad-hoc basis whenever business is brought to the committee by the PSC. Ad-hoc meetings of the ACIR significantly inhibit its ability to consistently make decisions about the social responsibility of Duke's investments and proxy votes. Following implementation of this proposal, the ACIR will no longer meet on an ad-hoc basis, and instead will meet at least once each quarter.

Assistant Vice President for Investment Responsibility:

We request that the University create an Assistant Vice President for Investment Responsibility who will be responsible for overseeing Duke's investment responsibility operations, including those of the PSC and the ACIR. The AVPIR will be responsible for voting on shareholder resolutions for which no proxy voting guidelines exist and providing institutional support to members of the Duke Community who have concerns about the social responsibility of Duke's investments. This position should be independent and autonomous from the ACIR. However, the AVPIR will be a non-voting member of both the ACIR and the PSC and will be tasked with hiring three student investment responsibility oversight coordinators (see below).

The AVPIR will also be charged with managing the Social Choice Fund (see below). As a result, he or she will be an employee of DUMAC. The AVPIR will not be a Duke University administrative position; however, in order to ensure that the AVPIR remains accountable to the University and its community members, we request that the President publicly approve his or her appointment and dismissal.

Student Investment Responsibility Oversight Coordinators:

We request that the University create three work-study positions devoted to investment oversight that will be under the purview of the AVP for Investment Responsibility. The three student oversight coordinators will sit on the Advisory Committee on Investment Responsibility (ACIR) and, in addition to their duties to the committee, will be tasked with reviewing reports of endowment holdings and ensuring that all securities held by the University are consistent with University's stated commitment to investment responsibility (Found Here). If holdings are found to be in violation of Duke's stated commitment to avoiding "substantial social injury,” **[2]** the student coordinators will be expected to report those findings to the President’s Special Committee on Investment Responsibility for further review and to make their reports public to the Duke Community. In the event that the oversight coordinators do not find investment violations to be taking place, a report stating such should be made public to the Duke Community.

The oversight coordinators will also be tasked with researching the investment policies and procedures of other universities, monitoring trends in responsible investment that have an impact on institutional investors, assisting community members in drafting and presenting formal concerns to the PSC, and identifying socially responsible investment opportunities for the University to consider. **[3]**

The student investment oversight coordinators do not have unilateral decision-making authority. Final decisions about investments will always be made by the Board of Trustees at the conclusion of the process outlined in the PSC/ACIR founding documents and amended herein.

Creation of the Social Choice Fund:

The University should create a social choice fund within Duke’s endowment, the contributions to which will be invested in investment vehicles that place a special emphasis on social responsibility in their investment decisions. The fund will provide an opportunity for donors to choose whether their contributions to Duke are invested for positive social impact while also making a profit for the University. It will be the responsibility of DUMAC to determine the operational details of the fund, including the initial selection of mutual funds, and it will be the responsibility of the ACIR and its student oversight coordinators to review the fund’s holdings and ensure that they remain consistent with Duke’s stated commitment to socially responsible investing. The ACIR will also be responsible for establishing criteria for what qualifies an investment vehicle as socially responsible and making investment recommendations to DUMAC. DUMAC will be restricted to choosing from among only those investment vehicles deemed socially responsible when determining how to invest the social choice fund. The social choice option should be available for selection in all fundraising efforts.

Creation of final policy:

In order to ensure that the University drafts a policy consistent with our requests, we require as a condition of our proposal that the University only approve legal documents establishing endowment transparency that do not substantively violate any of the proposals offered herein. In order to ensure compliance with this condition, we request that at least two representatives from our organization – DukeOpen **[4]** - be present when the final legal documents are drafted and approved.

[1] The Duke Community shall be defined as current students, faculty, and employees of Duke University.

[2] Substantial social injury shall be defined as the harmful impact that the activities of a company or corporation have on consumers, employees, or other persons, or on the human or natural environment. For example, corporate actions may violate domestic or international laws intended to protect individuals and/or groups against deprivation of health, safety, or civil, political, and human rights.

[3] Socially Responsible Investing shall be defined as avoiding investments that may cause substantial social injury and actively pursuing securities that align with the University's commitments to social, moral, and environmental responsibility, in addition to its fiduciary responsibility to shareholders.

[4] DukeOpen is a group composed of students representing a range of campus organizations concerned about endowment transparency.

Citations

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Comparative Logistical Analysis of Open Endowment Models

DukeOpen

The Coalition for Endowment Transparency and Investment Responsibility

Table of Contents

I. Introduction

This section provides a base level introduction to the organization DukeOpen, our goals, and the topic of open endowments and responsible investing more generally.

A. Document Scope

This document offers a logistical analysis of existing open endowment plans and an overview of DukeOpen's proposed plans. We begin by introducing our organization and its goals, continue with a comparison of open endowment implementations at other universities, and conclude with the reasoning behind our own policy proposal.

For more information visit our website at www.dukeopen.com

B. What is DukeOpen?

DukeOpen is a coalition of graduate and undergraduate students from a diversity of disciplines dedicated to increasing endowment transparency and working to make Duke's investment policies more socially responsible.

The recent Conflict Minerals campaign in 2012 demonstrated a broad, sustained interest from students and community members about how we invest our endowment. The campaign also demonstrated an acute need for an effective communication pathway and grievance process to facilitate community action for ethical investing based on accurate information about investment holdings.

DukeOpen was created to help construct this effective pathway.

C. Why Now?

Ethical investing is a growing trend nationwide, with 36% of colleges reporting some or all endowment holdings to their communities ("Environmental, Social and Governance Investing by College and University Endowments in the United States," IRRC and Tellus, available here). Yale, Dartmouth, Stanford, and Brown all employ plans to address socially responsible investing, with endowment returns that pace the Ivy League.

D. Feedback

We appreciate your feedback! Send us mail at info@dukeopen.com, or use our online contact form at http://dukeopen.com/contact/.

II. Open Endowments Explained

This section provides background information on open endowments and socially responsible investing.

A. Open Endowments

Open endowments proactively seek community engagement to inform all stakeholders of holdings and increase community governance. Holdings are often disclosed in a time-delayed fashion with community-only access to avoid any competitive disadvantage.

B. Socially Responsible Investing – History

Some attribute the beginning of socially responsible investing (SRI) in America to the Quakers' choice to refuse to engage in the slave trade. Around the same time John Wesley, founder of Methodism, elaborated principles of socially responsible investment in his tract "The Use of Money."

During the civil rights struggles of the 1960's SRI expanded to include direct boycotts of socially injurious firms and economic support of community-building companies. Modern SRI efforts are perhaps most well-known for their role in toppling the apartheid regime of South Africa through boycott, divestment, and pressure on international companies doing business that supported the regime.

In the 1990's and onwards SRI has expanded to include concerns of environmental sustainability and in some ways may be considered a precursor to the current interest in "going green." Other popular SRI concerns include unfair labor practices, worker safety conditions, women's rights, and the role of corporate money in civil conflict.

C. Socially Responsible Investing – Today

Today SRI has grown to be a significant investment tool in America. The US Forum for Sustainable and Responsible Investment calculates that 1 out of every 9 dollars professionally invested in America (about $3.74 out of $33.3 trillion in the U.S. investment marketplace) is invested in sustainable and responsible investing.

From 2010 to 2012 SRI grew by more than 22%, with a total of 333 mutual funds considering environmental, social, or corporate governance (ESG) criteria in 2012. The number of funds and diversity of asset classes continues to increase, with socially responsible exchange traded funds (ETFs), hedge funds, and real assets among the products available.

For more information on the state of socially responsible investing in America as well as available investment options see the US Forum for Sustainable and Responsible Investment's "Sustainable and Responsible Investing Facts," from which these figures were drawn: http://ussif.org/resources/sriguide/srifacts.cfm

D. Socially Responsible Investing – Methods

Ethical investment practices employ socially responsible guidelines to ensure endowments do not invest in companies causing substantial social injury and, where financially responsible, prefer companies contributing to social well-being.

Socially responsible investing employs a broad array of methods, including negative screening (filtering out companies that cause substantial social injury), impact investing (investing in companies that create positive financial and social returns), shareholder advocacy (making and supporting shareholder resolutions that are socially responsible), and community investing (investing into community based organizations).

E. Diversity of Strategies

Different endowments employ different methods to realize transparency and social responsibility alongside their financial responsibility to the university community. Some endowments focus more on shareholder advocacy, while others prefer the implementation of social choice funds.

Social choice funds offer alumni the opportunity to earmark their contributions for investment in socially responsible asset classes. Social choice expands the giving options available to university donors.

III. Models Compared

This section explores current implementations of open endowments at peer institutions.

A. Key Drivers

Our comparative analysis of open endowments revealed several key drivers that contribute to successful implementation of effective committees on investment responsibility.

- **Stakeholder Recruitment** – Recruit members from all university stakeholders, including students (graduate and undergraduate), staff, administrators, and alumni.
- **Regular Meetings** – Hold regular meetings that are rigorously scheduled with mandatory attendance, as well as published attendance records.
- **Persistent Guidelines** – Adopt persistent guidelines such as proxy voting guidelines that bind future action, minimizing the amount of duplicative work and streamlining the process.
- **Fully Resourced** – Receive consistent institutional support in the form of information access, funds for research, and dedicated personnel hired specifically for mission implementation.
- **Publicly Accountable** – Publish annual reports to the university community detailing their own actions as well as analyzing the ethical impact of the endowment.
- **Communication Pathway** – Serve as an effective bridge between the endowment's ethical investing processes and community members with concerns.
- **Proactively Engage** – Actively seek university members' concerns with advertised open meetings, educational events, and dedicated websites.
- **Produce Research** – Monitor literature on socially responsible investing and create research documents providing background information in areas of concern, including alternative investment options and current corporate governance issues (e.g., human rights violations, labor practices, etc.)
- **Receive Disclosure** – Have access to endowment holding information.

To our knowledge the current Duke implementation fulfills only the "stakeholder recruitment" criterion fully.

B. Side-by-Side Comparison

The spreadsheet on the next page compares open endowments from peer institutions. The legend below defines what each of the column headers entails. The information is taken from the publicly available webpages of the respective institutions.

Investment Disclosure
Discloses some or all endowment investments regularly.

Time-Delay
Investment disclosure is time-delayed. Delayed disclosure helps preserve community oversight while protecting the endowment's time-sensitive strategic efforts.

Vote Disclosure
Discloses shareholder voting records. Shareholder advocacy forms an important plank of responsible investing and has the potential to change company policies for the better.

Community Oversight
Has a formal process for community-members to oversee social responsibility of investments. This metric requires the university to have a standing committee or group dedicated to community oversight to qualify for a "yes."

Shareholder Oversight
Has a standing body that includes community-members to draft shareholder resolutions and review shareholder voting patterns.

Social Choice
Enables alumni to earmark donations for responsible investment. Social choice expands the choices available to donors and allows them to give with confidence, knowing that their investments support both their alma mater and the world.

Open Endowment Comparison

Y	Yes
N	No
n/a	Not Applicable
/	Partial
-	Unknown

	Yale	Dartmouth	Brown	Stanford	Duke
Investment Disclosure	Y	Y	Y	/	N
Time-Delay	Y	Y	-	-	n/a
Vote Disclosure	/	Y	Y	Y	N
Community Oversight	Y	Y	Y	Y	N
Shareholder Oversight	Y	Y	Y	Y	N
Social Choice	N	N	Y	N	N

C. The Yale Model

Yale's Advisory Committee on Investor Responsibility (ACIR) advises the Yale Corporation on ethical investment, crafts proxy voting guidelines, and has "access to the list of the university's current holdings of endowment securities and to all data compiled by or on behalf of the university with respect to companies in which an investment has been made or contemplated" (*The Ethical Investor*, p. 176).

The ACIR is composed of a mix of students, administrators, faculty and alumni. Its structure is based on the book *The Ethical Investor*, written by a Yale professor and two Yale graduate students in the early 1970's. The book outlines the arguments for a university to act in a morally responsible fashion with direct holdings, or companies in which it directly owns stock.

However, Yale updated their policies and policies on ethical investing apply not only to direct holdings but also to holdings privately invested through funds. Upon the joint determination of the ACIR and the Corporation Committee on Investor Responsibility (the Trustee analog to the ACIR), the Corporation will employ "use of voice, disassociation from the offending investment manager, and, as a last resort, disposition of the tainted partnership interests" from private investments deemed to be ethically irresponsible (ACIR "Policies and Past Actions").

Known globally for its innovative endowment investment strategy (colloquially referred to as "The Yale Model"), Yale discloses its asset class allocation in each endowment's annual report. Despite disclosing its explicit investment strategy annually, Yale's endowment returns consistently pace the Ivy League, and Yale's endowment size is second only to Harvard's. Yale presents a strong case that disclosure does not harm returns.

According to The College Sustainability Report Card Yale discloses proxy votes on a company-specific level to the trustees and senior administrators and "other select individuals upon request."

Citations
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http://investments.yale.edu/index.php/reports/endowment-update
http://www.greenreportcard.org/report-card-2011/schools/yale-university
http://acir.yale.edu/policies_and_past_actions.html

D. The Dartmouth Model

Dartmouth's Advisory Committee on Investor Responsibility (ACIR) establishes proxy voting guidelines, reviews proxy voting records against university policy, makes recommendations concerning "the desirability of disclosing information regarding the College's investment portfolio to its constituencies," and advises the Trustees on community education about the endowment.

Disclosure of direct holdings is available as a hard copy for university community members to see in the Office of Investments, updated quarterly. This time-delayed disclosure of three months may in part address concerns about time-sensitive investment strategy.

Shareholder voting records are disclosed by topic area and by company name, and are available online to the public. ACIR meetings are open to community members. The current membership consists of three administrators, two faculty, one alum, two undergraduates, three graduate students, and one non-voting administrator.

Citations
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http://www.dartmouth.edu/~finance/committees/acir-disclosure.html
http://www.dartmouth.edu/~finance/committees/acir-membership.html
http://www.dartmouth.edu/~finance/docs/acir11.pdf

E. The Brown Model

Brown's Advisory Committee on Corporate Responsibility in Investment Policies (ACCRIP) establishes proxy voting guidelines, receives all proxy shareholder resolutions, votes on them if in line with the guidelines, casts their own vote if no guideline covers it, and discloses the voting records to the public. Voting records consist of company, what the resolution was, if a guideline covers it, how the vote was cast, and reasoning for voting.

Brown's endowment does not disclose holdings directly, but does effectuate limited disclosure through disclosure of shareholder resolution voting records. Significantly, Brown possesses an active and growing social choice fund. The university deploys social choice as part of a proactive, holistic approach to responsible investing.

As is a common theme with community engagement models at other institutions, Brown's ACCRIP meetings are open to all community members, and any community member can submit an investigative request concerning potentially socially injurious investment holdings.

The minutes require university login to access, and the ACCRIP is comprised of three faculty elected by faculty, three students with two elected by undergrads and one by graduate students, three alumni chosen by President, and two University staff members. Significantly, the staff of the Investment Office may not serve as voting members.

To enable the ACCRIP to carry out its obligations expeditiously, the university President is asked to provide a subscription to a "reputable proxy issue research service," a research assistant if required (similar to Yale's model), and to join in consortia with sister institutions where relevant to discharging corporate investment responsibility.

Citations

http://www.brown.edu/about/administration/advisory-committee-corporate-responsibility-investment-policies/

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F. The Stanford Model

Stanford's Advisory Panel on Investment Responsibility and Licensing (APIRL) advises the Trustee Special Committee on Investment Responsibility (SCIR), considers proposals form the university community, researches socially responsible investing, and advises proxy voting guidelines.

Direct holdings are available for disclosure on a case-by-case basis. When a university community member submits an official Request for Review APIRL will review the companies listed in the report and, if substantial social injury is apparent, inform the submitter on whether or not the university has direct holdings in those companies. It is unclear if APIRL will inform the inquiring parties as to the existence of investment holdings in the case that the social injury of the holdings is determined to be null.

APIRL's membership consists of 12 members. Four faculty, four students (two undergraduates and two graduate students), two alumni, and two administrators. The President has final approval of all members' appointments. Administrators are nominated directly by the President's office. All others are nominated by group-specific nominating committees.

Trustee shareholder voting decisions are reported to APIRL for review against proxy voting guidelines, along with reasoning for each voting decision. However, voting records are do not appear to be made available to the Stanford community.

APIRL offers an internship programs for undergraduates and graduate students to write background reports on areas of interest (diversity, labor rights, environmental sustainability, human rights). Reports become part of the official guiding policy for the SCIR and APIRL.

Citations
http://apir.stanford.edu/

https://www.stanford.edu/group/apir-l/docs/public/MASTER_STANFORDSSTATEMENTONINVESTMENTRESPONSIBILTY.pdf

https://www.stanford.edu/group/apir-l/docs/public/Master_APIR-L%20Charge_website.pdf

https://www.stanford.edu/group/apir-l/docs/public/2010-2011-President%27s-Report.pdf

G. The Duke Model

Overview

Duke's current mechanisms for socially responsible investing face significant implementation challenges that render them ineffective. Ad-hoc structures with no standardized procedures and a lack of community-facing communication channels characterize the current approach. Originally developed in 2004, the roughly one-page long guidelines have not undergone substantive review or modification since then.

Structure

Duke's investment responsibility mechanism consists of two committees, both of which have no official declared meeting schedule. The first is the President's Special Committee (PSC), empowered to receive complaints from community members and determine if they merit escalation to the Advisory Committee on Investment Responsibility (ACIR). The second, the ACIR, is tasked with making a recommendation to the President. The President then has an opportunity to forward this recommendation to the Board or to reject it.

The PSC

The PSC has no official mechanism for accepting complaints from community members. It provides no standardized submission format nor any research guidance for community members interested in submitting a complaint. There is no published list of PSC members, and the only known members are the Provost and Executive Vice President who are declared to be permanent sitting members in the 2004 "Creation of President's Special Committee on Investment Responsibility and Advisory Committee on Investment Responsibility" document.

The only official PSC publication we were able to find consists of an email recommending the ACIR review last year's submission concerning conflict minerals ("MEMORANDUM. Subject: Decision by President's Special Committee on Investment Responsibilities").

The ACIR

To our knowledge the Duke Advisory Committee on Investment Responsibility (ACIR) has not convened a public meeting on its own initiative since its foundation (though it did convene a public forum on conflict minerals in response to the undergraduate student movement in 2012). To our knowledge ACIR has not published an annual report since its founding, or if published, has not retained community access to it via its website. To our knowledge ACIR has not produced any original research on socially responsible investing, nor compiled any documents reviewing current research in socially responsible investing.

Judging by ACIR's website it appears as though ACIR has met only twice since its foundation nine years ago. Once in 2007 concerning Sudan divestment and once in 2012 concerning conflict minerals. In both cases considerable energy was required on the part of student leaders to create a student movement. Such a high threshold for effective communication with administrative mechanisms indicates that our current model is insufficient.

Opportunities to Improve

To recap, our current implementation leaves significant room for improvement. Specifically, opacity; ad-hoc and grievously infrequent meetings on the order of once or twice a decade; inadequate resourcing to fulfill originally mandated research contributions; absence of standardized procedures concerning complaint submission; failure to implement substantive proxy voting guidelines; and a lack of communication with the university community all represent opportunities for progress.

Cites

http://today.duke.edu/2004/02/investing_0204.html

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http://spotlight.duke.edu/acirforum/files/2012/03/Duke-Univ-ACIR-Conflict-minerals-ACIR-report-2012-05-01-Final-with-Appendices1.pdf

IV. The DukeOpen Model

DukeOpen has devised a proposal intended to fulfill the original intent of ACIR's founding document within an updated context of socially responsible investing. Based on the key drivers analysis of open endowment implementations above, the following outline presents our solution. For the full proposal, see http://dukeopen.com/downloads.

A. Three Cornerstones

There are three, interlocking cornerstones to our proposal: disclosure, oversight, and social choice. Each plank assists and benefits from the others, producing a synergistic whole greater than the sum of its parts.

B. Disclosure

Disclosure of both direct and indirect endowment holdings and shareholder resolution votes plays a critical role in informing stakeholder oversight of the endowment. Without disclosure stakeholders remain uninformed about potentially socially grievous holdings, and their ability to recommend socially proactive investment alternatives is hamstrung. We recommend an appropriately time-delayed bi-annual disclosure to the Duke community. Though Yale discloses asset class allocations annually, we do **not** request such disclosure from DUMAC.

C. Oversight

Three work-study financed student analysts should be appointed to serve on ACIR through a competitive applications process. The student analysts should be managed by a permanently appointed administrative member. In addition to their duties to ACIR, the analysts will be tasked with reviewing reports of endowment holdings and ensuring that securities held meet the University's stated commitment to investment responsibility. The analysts will publish a corollary report processing the disclosure findings for the Duke community.

The analysts will also research socially responsible investment trends, monitor other institutional investors' adoption of SRI tactics, and assist interested community members in preparing fact-based research reports detailing their ethical investment concerns to the PSC.

D. Social Choice

In all fundraising efforts the University should prominently promote and advertise the option for alumni to mark their contributions for investment in socially responsible securities. Offering alumni an additional pathway to giving may increase contributions, as donors can give with confidence knowing their dollars will support investments that benefit both Duke and the world. Significantly, we do **not** request the endowment allocate a pre-determined percentage of its holdings to funds designated as socially responsible.

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DUKE/Open

Financial Analysis

DukeOpen

The Coalition for Endowment Transparency and Investment Responsibility

Introduction

Our Mission:

Formed in January 2013, DukeOpen is a coalition of Duke students dedicated to improving endowment transparency and enhancing the social responsibility of Duke's investment policies. Endowment transparency is a growing trend among colleges and universities. Already, between 28% and 36% of American universities disclose some or all of their endowment's holdings. Although Duke has made considerable strides in ensuring that its investments align with its social and ethical commitments, it has so far failed to open its endowment.

For a large institutional investor like Duke, a transparent endowment is a crucial element of its socially responsible investment strategy. Unless community members know what kinds of securities the university invests in, they can neither bring concerns about socially injurious holdings to the attention of the University nor recommend changes to the endowment's investment portfolio.

Document Scope:

Although many members of the Duke administration and Board of Trustees support the push for greater endowment transparency, some are concerned about the financial consequences of an open endowment. Understanding the potential risks and rewards is essential in determining whether or not to make Duke's endowment more transparent, and we have worked diligently to assess the financial consequences of endowment transparency.

An overwhelming amount of evidence indicates that adopting a socially responsible investing strategy can allow a fund to achieve returns equal to or greater than those achieved through traditional investments. This document centralizes some of that information and presents comparative performance data for university endowments and socially responsible investment (SRI) indices. The data included in this report indicates that, despite concerns that endowment transparency or the incorporation of social and ethical considerations into the investment calculus compromises financial returns, transparency is not likely to diminish the financial performance of the endowment. In addition to the evidence presented here, more than 20 peer-reviewed studies have concluded that the performance of SRI funds is comparable to that of non-SRI funds. Based on this data, we feel confident asserting that the considerable social, ethical, environmental and reputational benefits of a more open and responsible endowment outweigh the relatively low financial risk.

Financial Considerations for the Duke Endowment

Transparency and Performance:
The primary goal of the Duke Endowment is to maximize returns. Consequently, one of the concerns held by administrators and Trustees is that transparency will threaten the endowment's financial performance. Despite this concern, considerable evidence indicates that disclosing endowment holdings does not undermine the fund's competitiveness. Figures 1 and 2 in the "Data and Analysis" section demonstrate that, for the past two fiscal years, open or partially open endowments have performed as well or better than closed endowments. Figure 3 represents the percent change in endowment size of four universities over the past 5 years. All of the universities have similarly sized endowments, two of which are open and two of which are closed. As the graph shows, the percent change for each year is similar for all four universities, suggesting that the transparency of an endowment has no bearing on its year-to-year growth.

Open or partially open endowments are defined as endowments for which university community members have access to information about (a) direct holdings, (b) funds through which the university invests indirectly, (c) a complete list of proxy voting guidelines or (d) some combination of these.

Socially Responsible Investing and Performance:
Another common concern is that, in general, socially responsible investment strategies are not financially rewarding. However, long-term trends reveal that socially responsible investing - selecting funds and securities that prioritize social responsibility - does not hurt returns. In fact, the oldest SRI index has outperformed the S&P 500 (a traditional index) over the past 20 years. Figure 4 illustrates this trend. Moreover, a study conducted in 2010 by Weber, Mansfeld and Schirrman found "that SRI funds had a significantly higher return than the MSCI World Index [a traditional index]." A graph illustrating this trend can be found below in Figure 5.

Socially Responsible Investing and Portfolio Diversity:
Additionally, a common misconception about socially responsible investing is that the available asset classes are restricted to mutual funds. Contrary to this belief, recent advances in endowment portfolio strategy have included the use of non-traditional asset classes to maximize returns in uncertain markets, and considerable investment data suggests that ESG criteria can be incorporated in investments across asset classes. According to a report conducted by the IRRC Institute, "investing in clean technology funds or "eco-efficient" companies (whether in public or private equity), supporting certified sustainable timberland in real assets, and making responsible community investments – generally in fixed income and cash allocations – are common examples of more proactive forms of ESG incorporation ... among endowments."

In general, although it is difficult to draw definitive conclusions and make perfect predictions about a fund's performance, the data we have found suggests that transparency and socially responsible investing do not pose a significant risk to the financial health of university endowments.

Data and Analysis

Figure 1

In Fiscal Year 2011, Ivy League Universities with open or partially open endowments (Dartmouth and Yale) saw returns as high or higher than those with closed endowments.

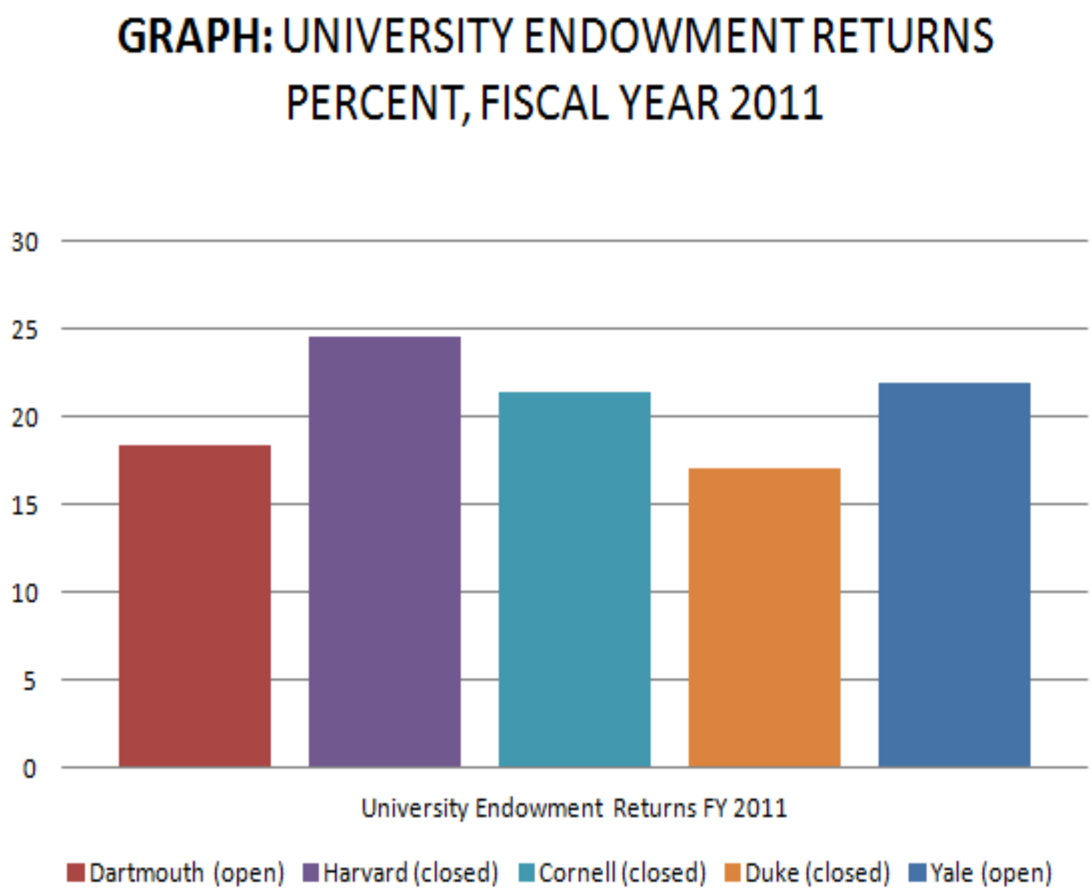


Figure 2

In 2012, Universities with open endowments significantly outperformed universities, including Duke, with closed endowments.

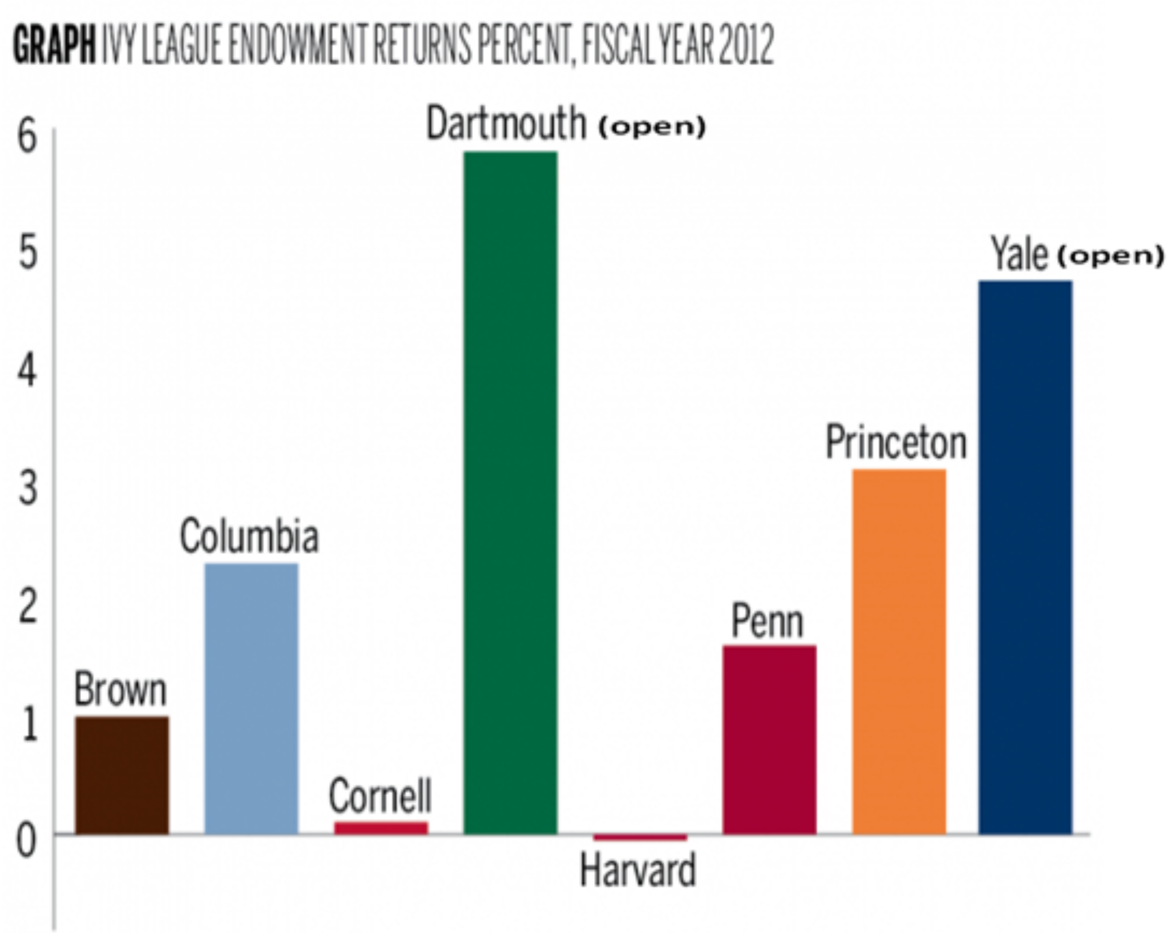


Figure 3

Based on annual reports compiled by the National Association of College and Business Officers, this graph illustrates the annual percent change for several university endowments. Emory University was included in the analysis because its endowment is similar in size to Duke's. As the graph shows, the growth of each endowment followed a similar trajectory over 5 years. Duke (closed) had the highest 5-year average return at 7.08%, followed by Yale (open) at 3.24%, Dartmouth (open) with 3.2% and Emory with 3.04%. The comparable success of open and closed endowments, reflected not only in their annual returns but also in their 5 year growth, suggests that disclosing endowment holdings does not pose a significant risk to a University's returns or competitive advantage.

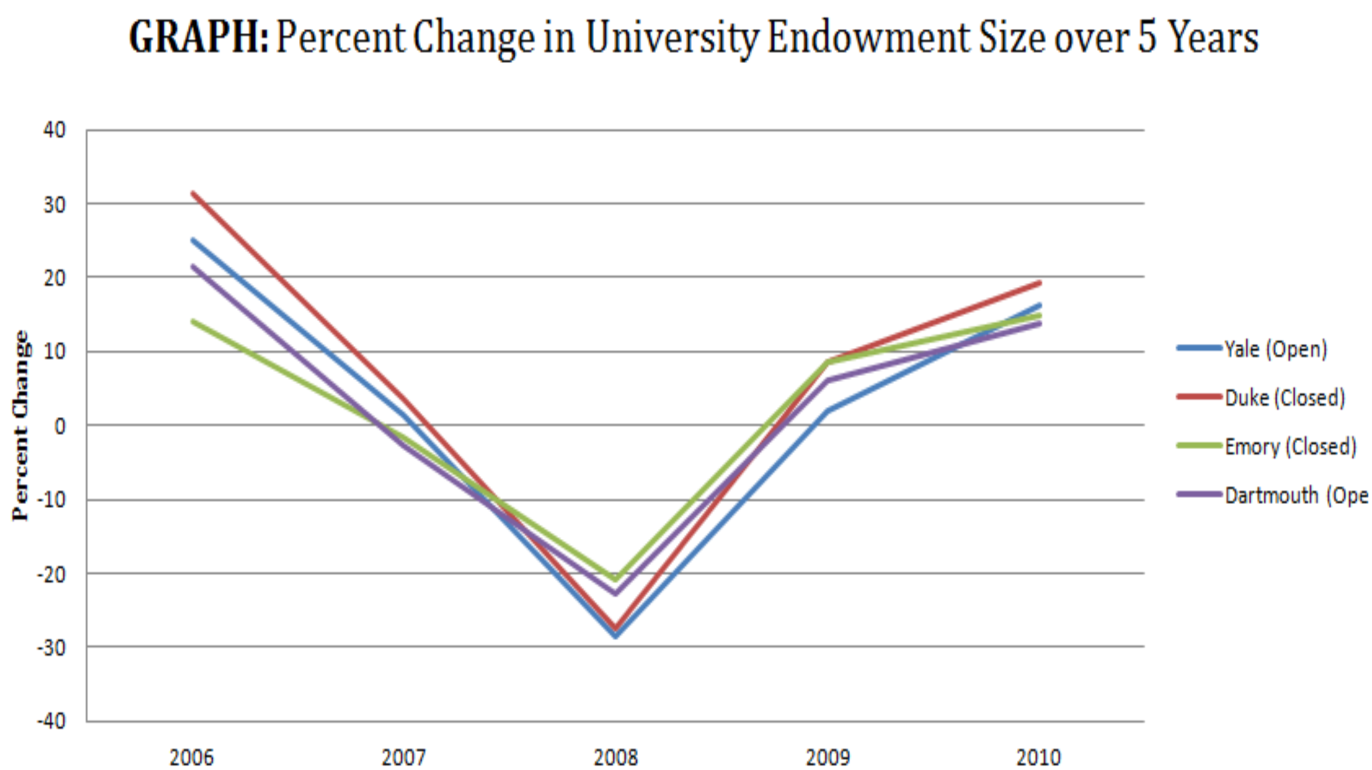


Figure 4

As the graph below indicates, the oldest SRI index (the KLD 400, established in 1990) has seen higher rates of return for the past 22 years than the S&P 500, a traditional index. The success of the SRI index suggests that moving towards socially responsible investing does not threaten a fund's long-term returns.

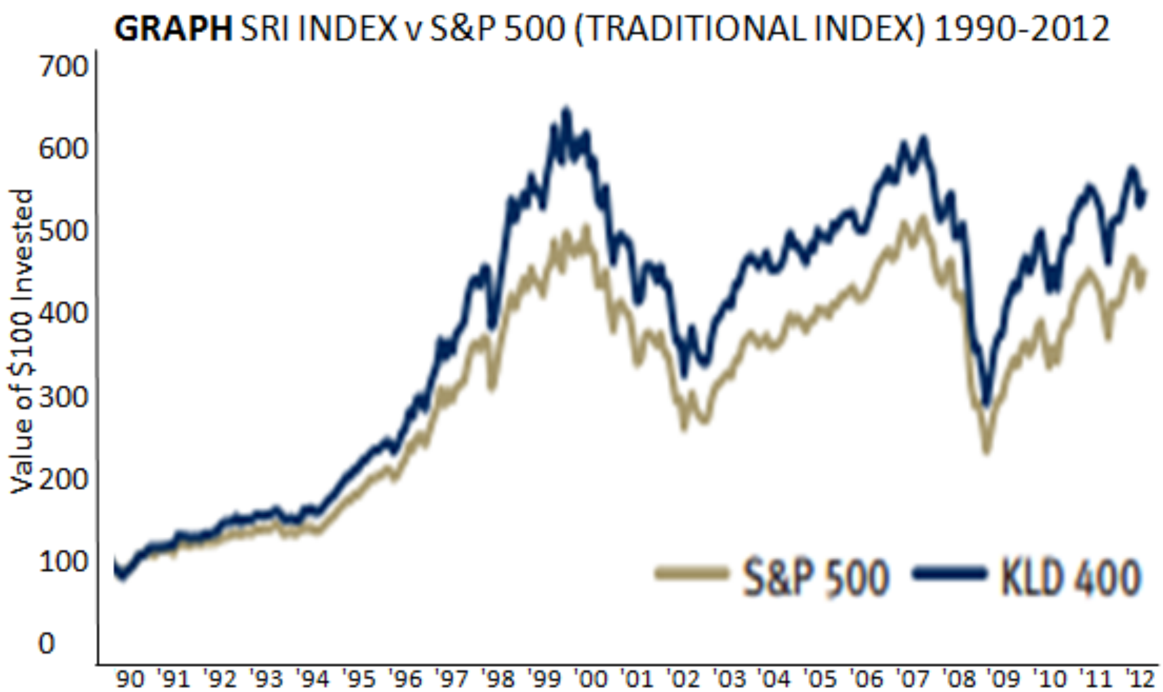
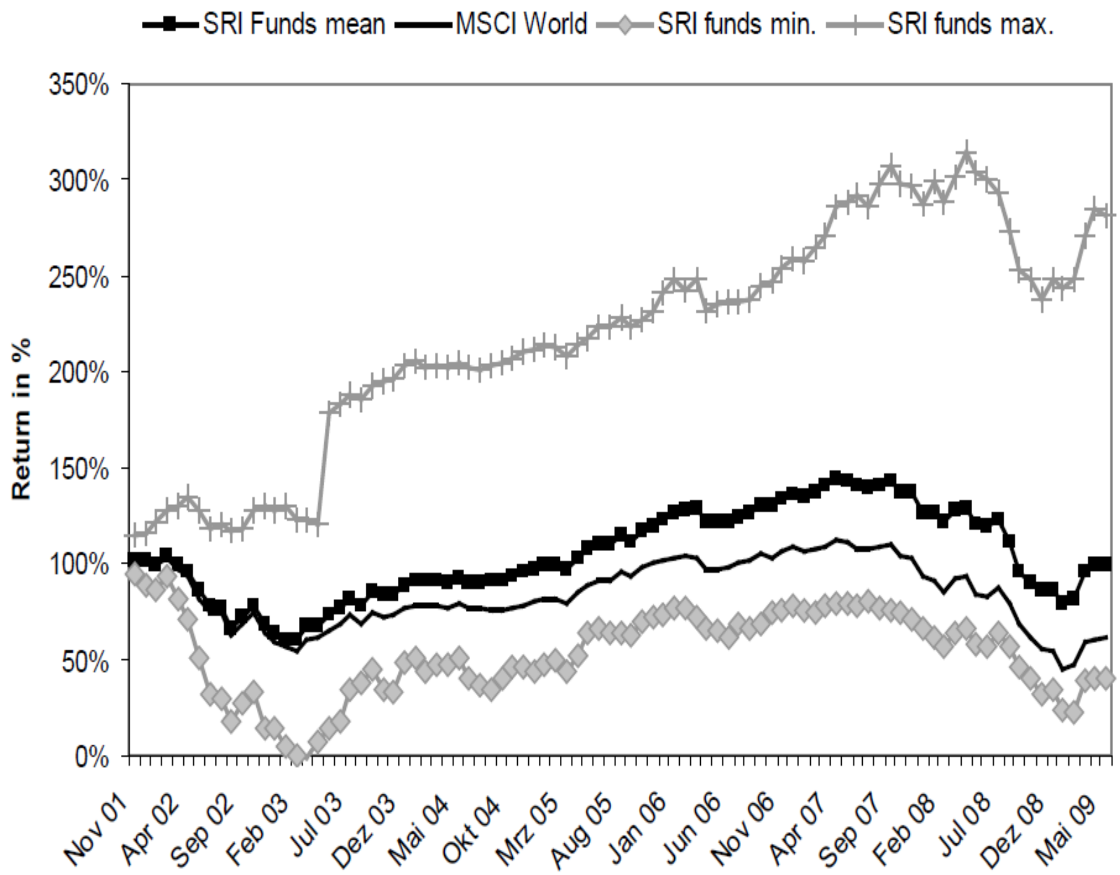


Figure 5

A report published by Weber, Mansfeld and Schirrman compared the long-term performance of an aggregate of Socially Responsible Investment (SRI) indices with the performance of the MSCI World Index, a traditional and widely tracked global equity index. Their findings revealed that, on average, the aggregated SRI indices performed better than the traditional index. The findings are statistically significant, and the researchers conclude that, at a minimum, investing in funds that specialize in SRI does not jeopardize returns.

GRAPH: SRI FUND v. MSCI World Index



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Endowment Transparency:

Fact Sheet

What's DukeOpen?

Formed in January of 2013, DukeOpen is a coalition of students from across Duke University who are dedicated to increasing endowment transparency and working to make Duke's investment policies more socially responsible.

And what is DukeOpen working for?

We're calling for three things:

1. We want the Duke University Management Corporation (DUMAC) to disclose endowment holdings to the Duke community twice a year and for this information to be placed in an easily accessible website.
2. We want the University to establish an Assistant Vice President for Investment Responsibility. The AVP will oversee investment responsibility efforts and will hire three investment responsibility student analysts each semester to be selected through a competitive application process. These student analysts will work to create a corollary report to each DUMAC investment holdings report that will analyze the social responsibility of the Duke University Endowment and will make suggestions for further reforms.
3. We want Duke to establish a Social Choice Fund that will allow alumni and members of the Duke community to donate to the university in a socially responsible way.

How does Endowment Transparency work?

By the year 2017, the Duke University Endowment is projected to be worth about $7 billion. To put that into perspective, Duke's endowment will be almost as large as the GDP of Rwanda. Currently, Duke's endowment is invested across more than 4,100 individual funds, and is involved in thousands of financial transactions every day in both national and international markets. Despite the fact that the endowment is so large, we know very little about where it is invested because the endowment is currently closed. Endowment transparency would require DUMAC and the Board of Trustees to report where the endowment is being invested to the Duke community every six months.

Are there other schools that have endowment transparency?

Yes, many of our competitor institutions, such as Yale and Dartmouth report endowment holdings to the University community.

But won't a transparent endowment hurt our financial position?

Simply put, no. For starters, endowment holdings will only be shared with members of the university community; so only Duke students, faculty, staff, and employees will be able to view where Duke's money is going and these reports will not be available to competitor institutions.

Furthermore, while we cannot prove that endowment transparency will *increase* the performance of the endowment, initial evidence suggests that transparent endowments perform as well as closed endowments, and in some cases, perform better than closed endowments. In the 2012 fiscal year, Dartmouth and Yale (both of which have transparent, or partially transparent, endowments) performed as well or better than other Ivy League schools. Dartmouth, in fact, led the Ivy League in endowment returns, and significantly outperformed Duke, which returned only 1%.

So why do we need a transparent endowment? What will we do with it?

A transparent endowment will allow members of the Duke community to effectively advocate for more socially responsible investments; and more importantly, will enable members of the Duke community to hold DUMAC accountable for decisions that are made concerning socially responsible investments.

The work of the Brown University's Advisory Committee on Corporate Responsibility in Investment Policies serves as a powerful example of what Duke could achieve with a more open endowment. Through the work of the ACCRIP, students at Brown have effectively divested from companies that supported genocide in Sudan, from companies engaged in the sale of tobacco, and from HEI Hotels and Resorts due to mistreatment of workers. With a transparent endowment, Duke students will not only be able to make these kinds of recommendations; we will also be able to ensure that they are properly executed.

And what is a Social Choice Fund?

A Social Choice Fund is an account within the University's endowment that works to support socially responsible companies through investing in funds that follow socially responsible criteria (SRI funds). SRI funds enforce these criteria either by applying negative screens, which work to exclude socially irresponsible companies, or by proactively choosing socially responsible companies in which to invest. Social Choice Funds have been established by many of our peer institutions, including Brown and Harvard. Through establishing a social choice fund, Duke will allow alumni and members of the Duke community to donate to Duke and ensure the social responsibility of their donation.

That sounds great! But what can I do to help?

- Encourage any student groups, houses, SLGs, sports teams, or other organizations you're involved in on campus to sign our letter to the Board of Trustees.
- Help participate in our 12-hour petition blitz (more details to come).
- Call President Brodhead's office at 919-684-2424 and tell him that you support endowment transparency.
- Visit www.dukeopen.com to learn more about endowment transparency and investment responsibility at Duke University.