

CIR Town Hall Discussion Materials

February 27th, 2020

CIR
Committee for Investor Responsibility



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CIR Overview

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Overview

- Advises Board of Trustees on ethical matters related to endowment
- Authorized to complete proxy votes and file shareholder resolutions
- No fiduciary responsibility
- Seeks to push for greater transparency and shareholder engagement from the endowment
- Meet with Investments Office to relay concerns and questions about holdings
- Currently made aware of equities held by separate accounts

Views of Divestment

- Currently focused on divestment from oil and gas assets
- Would ideally see a total phase out of oil and gas assets from endowment within the next five years
- However, must recognize difficulty associated with structure of investment vehicles
- Looking to work more closely with student body to gauge views on divestment

Past Accomplishments

2011



- Submitted a proposal to Finance Office requesting a transfer of \$500,000 from main operating account to two local banks committed to serving disadvantaged communities
- Proposal was adopted, funds were transferred to Liberty Bank and Community's Bank

2013



- Worked with Finance Office to increase community investment program to \$1million
- University holds \$250,000 in 6mo CDs at Liberty Bank, Start Community Bank, City First Bank of DC, and Carver Federal Savings Bank

2015



- Presented proposal to Board of Trustees advocating for divestment from coal assets and implementation of ESG considerations
- Board adopted resolution considering ESG factors when selecting investments

2016



- Proposed adoption of standard procedure ESG risk review to Trustees
- Investment Office now includes section on ethical concerns in reports on current and prospective managers to Trustees

2019



- Worked with WSA on resolution pledging to create separate endowment
- Invested funds with no exposure to fossil fuels or Israeli occupation of Palestine

Endowment Overview

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Endowment Overview

Endowment Purpose

- Provide a continuous stream of funds to support annual operating budget
 - Determined via Tobin Rule
 - \$41.3mm in FY 2019
 - \$42.8mm in FY 2020

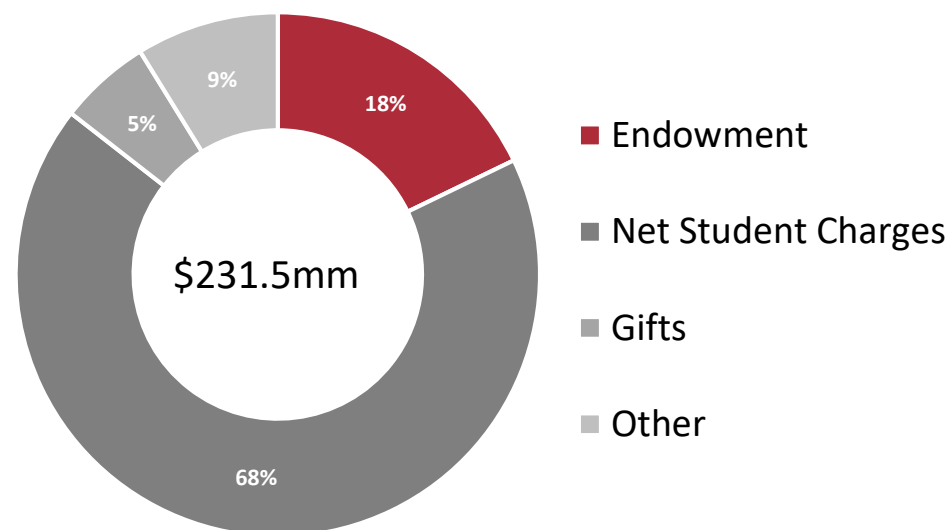
Role of Board of Trustees

- Sets overall policy for the endowment
- Designates day to day responsibility to the Investment Committee

Role of Investment Committee (IC)

- Meet four times annually
- Approve asset allocation targets
- Approve all new investment managers
- Monitor liquidity
- Monitor activity of Investments Office

Endowment and University Operating Revenue



Role of Investments Office

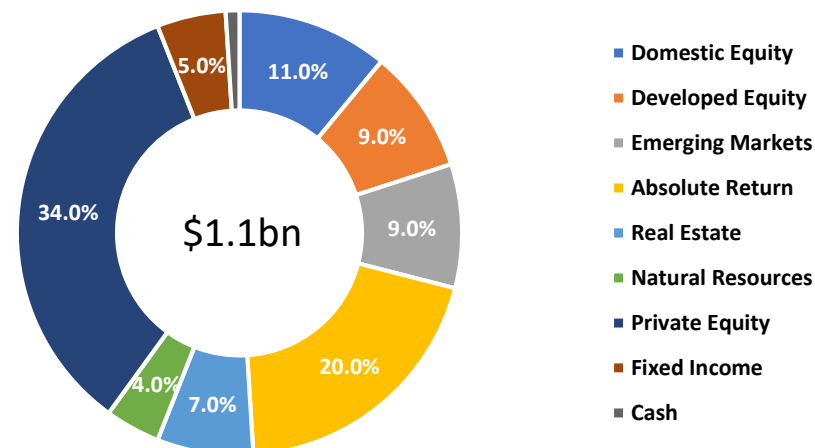
- Sources, conducts due diligence, and recommends new managers to IC
- Monitors existing managers
- Rebalances portfolio
- Monitors and forecasts liquidity
- Reports on activity

Endowment Structure

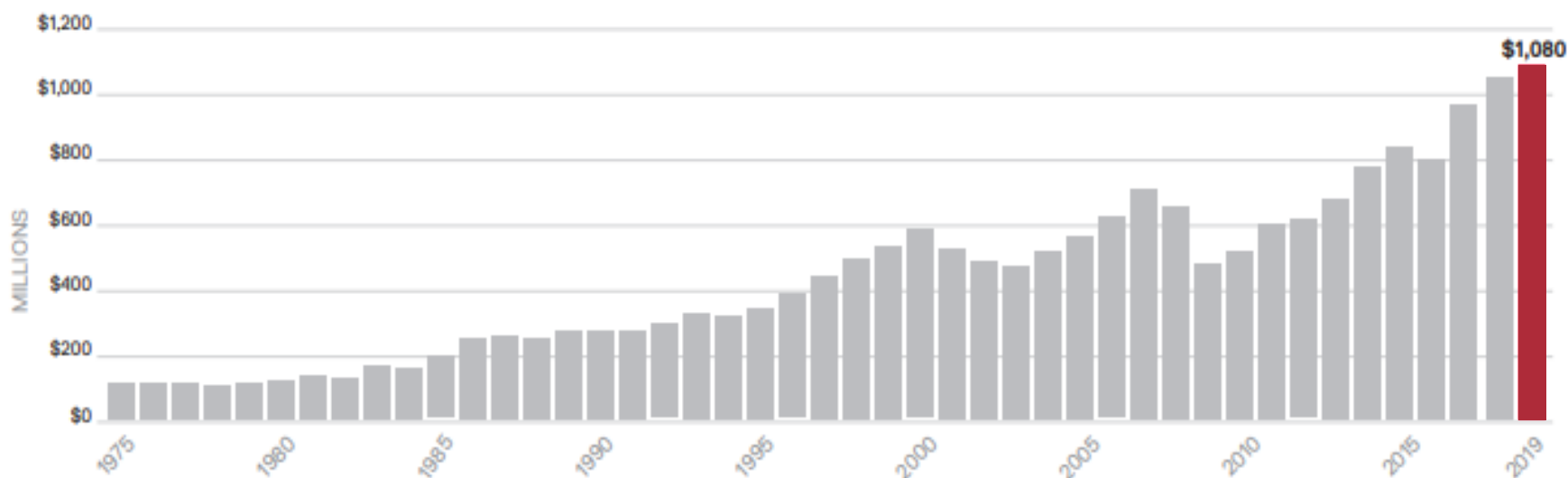
Endowment Statistics

- Current endowment size of \$1.08bn
- FY 2019
 - 1 YR return of 4.3%
 - 3 YR annualized return of 10.8%
- Has grown from \$476.5mm to \$1.08bn in 10 years

FY 2019 Portfolio Asset Allocation



Wesleyan Endowment Size Over Time

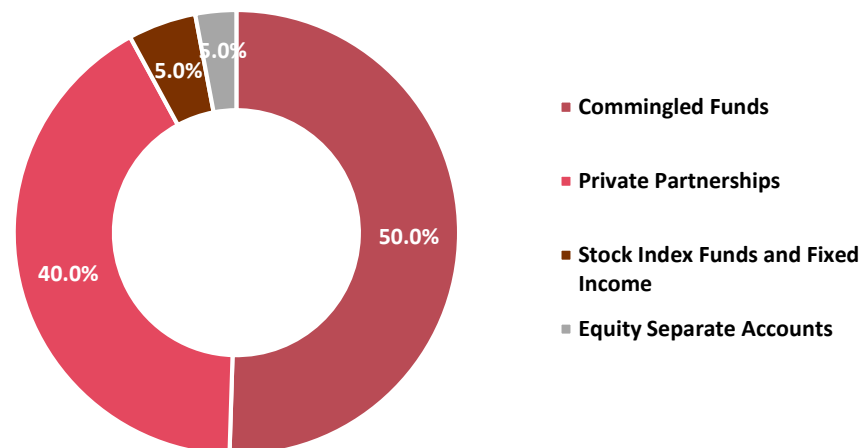


Endowment Investment Vehicles

Investment Vehicles Overview

- **Separate Accounts / Mutual Funds**
 - Very Liquid
 - Separate accounts are managed by a professional manager, but the holdings are directly owned by the endowment
- **Commingled Funds**
 - Less Liquid
 - Controlled by a professional manager
 - Money is pooled from many investors
 - Investors own shares in the fund as opposed to individual securities
 - Economies of scale reduce associated costs
- **Private Partnerships**
 - Illiquid
 - No readily available secondary market
 - Must wait until redemption periods
 - Often provide higher returns in exchange for illiquidity

Investment Vehicle Allocation



Redemptions

- Redemption refers to when investments are liquidated (closed) before the agreed upon maturity date
- Managed investments often have the following:
 - **Lock-up Period:** Time during which investor can't redeem investment (Mo - Yr)
 - **Gates:** Maximum amount that can be redeemed at one time (10% - 25%)
 - **Penalties:** Penalty payments associated with early redemptions

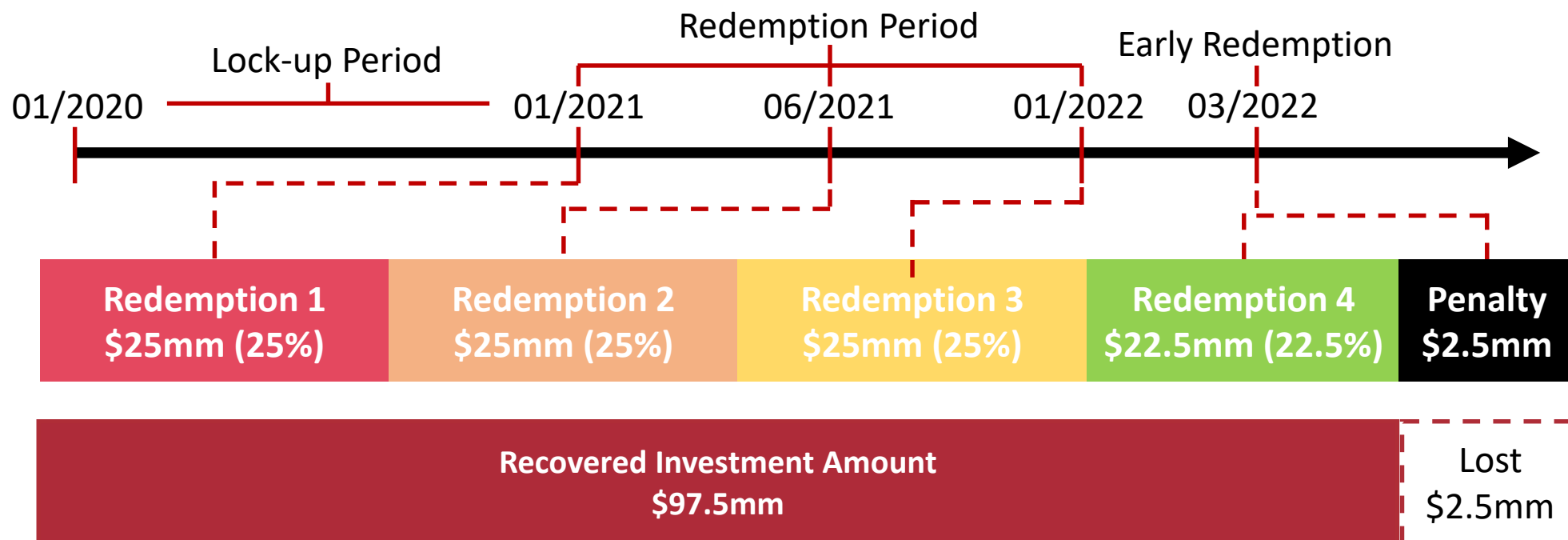
Redemption Example

Scenario Overview

- **Investment Principal:** \$100mm
- **Lock-up Period:** 1 Year
- **Redemption Periods:** Semi-annual (Jan. and May)
- **Redemption Gate:** 25% of initial investment
- **Early Redemption Penalty:** 10% of redemption
- Assume no return on investment (for simplicity)

Commentary

- You must wait until 01/21, the end of the lock-up period and first redemption period, to request your money back
- Due to the redemption gate, you can only redeem \$25mm at a time
- You ask to redeem the last of your investment early in 03/22, thus paying an early redemption penalty of \$2.5mm



CIR Plans and Goals

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WSA Resolution - CIR Bylaw Change

Resolution Overview

- Resolution requests more access to endowment assets by CIR
 - **Resolution 10.41:** Calling for Divestment and Enhancing the Powers of the Committee on Investor Responsibility
- Co-authored by George Fuss '21 and Adam Hickey '22
- To be submitted to WSA before Spring Break
- Vote will occur shortly after Spring Break
- Resolution will then be submitted to President Roth for his approval
- Resolution will give CIR greater ability to monitor endowment's investments and adherence to ESG guidelines
- Will also allow CIR to monitor endowment's progress towards a full-divestment from oil and gas assets



Divestment Timeline Proposal

Proposal Overview

- CIR plans to recommend that the Investment Committee create a concrete divestment timeline
- Focused on divestment from all oil and gas assets
- Concrete plan will motivate Investments Office's decision making
- Will allow backdrop to monitor progress and share updates with the student body
- Current Investments Office policy is that they "will no longer seek out managers specifically to invest in oil and gas"
- CIR hopes that this proposal will accelerate the removal of oil and gas assets from the endowment portfolio
- WSA endowment will be used as an example as part of our proposal

Student Body Survey

- Need to gauge interest in support of divestment from oil and gas assets among Wesleyan
- Statistics will aid our efforts in convincing the board of implementing a divestment timeline
- Survey will be distributed to student body around spring break to collect data

Universities With Divestment Plans

- Stanford (2014) [coal assets]
- California State University, Chico (2014)
- Brevard College (2015)
- Johns Hopkins University (2017)
- Lewis & Clark College (2018)
- Middlebury College (2019)
- University of California (2019)
- Many more universities have already set divestment plans into effect, and many plan to do so in the near future

Takeaways

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CIR is committed to divestment efforts

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CIR is interested in hearing about the student body's concerns and ideas

3

CIR will push the Investment Committee to create a concrete divestment plan

Q&A

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Check-In Form

- Sign-up using the below QR code to receive an email when we host our next town-hall



CIR Website

- Find our contact info using the below town-hall

