Wesleyan University Committee for Investor Responsibility (CIR)
2010/2011 Final Report
May 2011

I. CIR Structure

One of the most important issues facing the CIR this year was attempting to determine its structure. The 2010-2011 academic year was the first year of considerable CIR activity; as a result we were aware that our actions had the potential to create precedents. The rest of this section will summarize decisions related to structure made this year:

A. Replacing the Investment Intern

The CIR and the Investment Office have come to a mutual agreement to replace the Investment Intern position on the CIR with a member from the Wesleyan student body. We both agreed that a member from the student body would be more capable of offering the time and enthusiasm necessary from a CIR member. This year a member from the general student body was appointed. The student members of the CIR recommend that this policy be continued, with the student receiving a two-year term. This student member can be a WSA member, but this should not be an advantage or a disadvantage. The most capable student member, regardless of affiliation should be selected. The CIR needs to make a change to its charter to reflect this new policy.

B. Weekly Meetings

It has become the CIR's practice to have weekly meetings of its student members. These meetings are very productive and should be continued into the future. They are the main source of committee organization and a lot of productive discussions have occurred at these meetings. However, as much as possible, the CIR should strive to include all members at these meetings. Currently, these meetings occur at 8 pm, which is not very convenient for non-student members. Next year, the CIR chair should determine which non-student members are interested in attending these meetings (even if only periodically) and seek to find a meeting time the works for more members.

C. Alumni, Faculty, and Staff Participation

The CIR's greatest failure this year was that it largely did not include non-student members. A number of obstacles created this problem. First, student schedules do not line up very well with those of non-student members. Second, students have more time and have expressed greater interest in consistent participation. Third, insufficient efforts have been made to bridge this gap. There certainly has been communication and approval of proxy votes, but a greater effort should be made to achieve more regularized participation and communication. Non-student members bring a diversity of views and experiences that can greatly improve the CIR.

The CIR should ensure that weekly minutes are sent around to all members allowing for regularized and consistent input on the direction of the committee. More efforts need to be made to have full-CIR meetings, especially outside of the context of meetings with the Investment Office. Achieving broader participation from non-student members needs to be a central goal of the CIR next year.

II. Transparency

This year the CIR made promoting endowment transparency one of its main goals. The issue of transparency largely focused on a line of text within the CIR's charter that calls for the "creation and maintenance of a website that lists Wesleyan's most current securities and provides a way for community members to express their opinion on these securities."

Before Anne Martin took over as Wesleyan's Chief Investment Officer (CIO) in the summer of 2010, the Investment Office complied with this section of the charter. However, this fall, the Investment Office stopped the policy of releasing a list of Wesleyan's direct investments to the campus community (students, faculty, staff, and alumni). According to Ms. Martin, two fund managers select Wesleyan's direct investments, which would be subject to disclosure under Wesleyan's charter. Ms. Martin told the CIR that the precedent established before she took over was in violation of a confidentiality clause in the University's contracts with these managers.

The charter of the CIR and Wesleyan's contracts with these two managers are in conflict. After months of debate within the CIR and multiple conversations with the Investment Office, the CIR came to an official position on the issue. This position was explained in a Memorandum to the Board of Trustees Portfolio Subcommittee in late February:

"It is the CIR's position that in existing contracts that conflict with the charter, Wesleyan should honor its contracts with investment managers. However, the CIR believes that, in the future, when signing contracts with managers who hold investments in Wesleyan's name, the Investment Office should ensure that contracts adhere to the requirement of disclosure as outlined in the CIR's charter. Currently, of Wesleyan's two managers who have non-disclosure agreements, one has given Wesleyan permission to release a list of securities. The other manager feels that the release of a list of securities could potentially reveal his or her investment strategy if someone was able to match up Wesleyan's list with SEC filings.

While the CIR recognizes this concern, the committee believes that it is extremely unlikely for someone to "connect the dots." First, many of Wesleyan's peer institutions release a list of their proxy votes to the school community. Since Wesleyan and these schools vote on proxy resolutions on direct investments held by managers, if the threat of "connecting the dots" was significant, this policy would not be widespread. Some universities with this type of policy include: Amherst College, Bard College, Carleton College, Dartmouth College, Oberlin College, and Williams College.

Second, the list of investments would be composed in a way that helps prevent this possibility. The list would be a compilation of all of Wesleyan's direct investments across managers, making it very difficult to distinguish one manager's investments from another's. Also, this list would not include any information about specific managers and would only be available to Wesleyan students, staff, and faculty through a password-protected page and only accessible to alumni through special request. Restricting student, faculty, staff, and alumni access to a list of Wesleyan's investments prevents the broader campus community from engaging with the CIR on issues of moral, ethical, and social responsibility."

Ms. Martin passed on this memorandum to the subcommittee at a meeting in early March, but neither the Portfolio Subcommittee nor Ms. Martin responded to the memorandum after the meeting. The CIR has sought to engage in discussion rooted in cooperation. We believe that our requests, as reflected in the CIR's memo, are not in conflict with the Investment Office's goal of maximizing return on investment. Unfortunately, despite our best efforts, attempts at cooperation have been largely unsuccessful. The CIR will continue to work to ensure that it is able to promote the levels of transparency called for in its charter. We hope that transparency can be achieved through cooperation with the Investment Office.

Additionally, the CIR will continue to pursue broader transparency in other asset classes. Currently, the CIR has extremely limited knowledge about the Wesleyan endowment. We have repeatedly asked for information to be shared with us, but apart from information available to the Wesleyan community, nothing has been shared. Without access to information about the endowment, the CIR is severely handicapped. Currently, the CIR has access to information relating to under 20% of the University's endowment. The CIR needs to have broader access to information. It cannot "consider issues of ethical, moral, and social responsibility" with access to such a small part of the entire picture.

The CIR recognizes that some information outside of Wesleyan's direct holdings might be sensitive and need to remain confidential. That is why we have requested broader access to information with the stipulation that we sign a confidentiality agreement. This request has not been honored. Our request is not unrealistic. We wish similar access to information, with similar confidentiality restrictions, as the Investment Intern (a member of the student body) would have. The difficulty we have had in obtaining access to the most basic levels of information raises concerns about University's commitment to investor responsibility.

Nonetheless, the CIR has been able to obtain access to additional information related to the endowment, including breakdowns by asset class, names of managers, and potential conflicts of interest. Much of this information is publicly available, either on Wesleyan's 990 tax form (guidestar.com) or in Wesleyan's Annual Financial Report (http://www.wesleyan.edu/finance/financeDept/reporting/annualFinancialReport.html). Again, it is of some concerns that the Investment Office did not readily share public information with the CIR.

III. Proxy Resolutions (Proxies)

Voting on proxies - the ballots that corporations send to the University so that we can vote on shareholder resolutions without attending the shareholder's meeting - currently forms the core of the work we do to influence corporate behavior. Over the course of the semester we have voted on around a dozen proxy ballots. Our typical process has been to delegate responsibility for researching and voting on the items to individual student members of the committee. We have agreed that the vote of the individual student researching the ballot represents the votes of all of the student members. As there are five student members of the eleven-member committee, however, we require at least one other member of the CIR to approve the voting choices in order to achieve a majority. Student members therefore prepare a document for each proxy ballot they vote on that contains the text of the proposals, the director's recommended votes, the CIR's choice, and a rationale for that choice, which is emailed to all members of the CIR. Once at least one non-student member approves the choices and creates a majority (which has always occurred), the student then enters the votes online.

The proposals on the proxy ballots tend to follow a standard format in terms of the proposals raised. These standard proposals are: approval of the nominees for the Board of Directors; an advisory vote on executive compensation (say-on-pay); an advisory vote on the frequency of say-on-pay votes; and ratification of the use of a particular independent registered public accounting firm. Of these four types of proposals, we have only adopted a standard position on the third one, which is to vote for the most frequent option (usually once per year).

As for the other types of proposals, complex issues arise for which we have yet to adopt a standard position: to what extent do we consider the social responsibility of individual nominees for the Board of Directors? Do we consider the practices of other companies, governments, activities, and enterprises with which he is also affiliated? Should we consider exorbitant executive compensation as a social responsibility issue, and if so, how much compensation is too much? Will voting "no" on an advisory say-on-pay vote be the most effective way to combat these instances of gross income inequality? If an accounting firm is under investigation or being sued by a state government (as Ernst & Young, a very popular firm, currently is), should we vote against its ratification? These are the questions that we have not yet attempted to formulate a standard position on as a group, and should be one of the first discussions we have next year pending more research.

Other avenues of further action include voting coordination with other colleges and universities, and launching shareholder action of our own, such as proposing resolutions to be placed on proxy ballots. Organizations like the Responsible Endowments Coalition have been useful in identifying issues for CIR's to focus their energy on - currently these issues are hydraulic fracturing fossil fuel extraction ("fracking") and political campaign contributions by corporations. Once we settle the voting issues described above, as well as ongoing bureaucratic contestation with the Investment Office, we will hopefully be able to devote more energy into these more proactive pursuits.