



University of Toronto

OFFICE OF THE VICE-PRESIDENT, BUSINESS AFFAIRS

TO: University Affairs Board

SPONSOR: Catherine Riggall, Vice President, Business Affairs

CONTACT INFO: 416-978-7473, catherine.riggall@utoronto.ca

DATE: October 19, 2007 for November 6, 2007

AGENDA ITEM: 6

ITEM IDENTIFICATION:

Revised policy: Social and Political Issues with Respect to University Investment

JURISDICTIONAL INFORMATION:

The University Affairs Board is responsible for approval of policies with regard to non-financial aspects of University investments.

PREVIOUS ACTION TAKEN:

The Governing Council approved the statement on Political Issues with Respect to University Investment on December 21, 1978. The policy was revised by the Governing Council on December 14, 1994 to make the President, or another senior officer designated by the President, Chair of the Advisory Committee.

HIGHLIGHTS:

The Policy on Social and Political Issues with Respect to University Investments was created to provide a mechanism for the university community to express opinions about the investments of the university and whether they reflected the values of the organization.

It was approved at a time when the investment decisions of the University of Toronto were made by a committee advisory to the president and the implementation of the decisions was handled by the Treasury department. Since that time, the University has restructured the whole investment process by creating the University of Toronto Asset Management Corporation (UTAM), a subsidiary company with a separate board of directors selected for their investment expertise. UTAM is staffed by investment professionals. The University no longer has any employees on staff with investment management expertise or accountability. It is important to note that the strategy currently employed by UTAM is to hire managers for specific mandates (asset classes, geographic concentration etc) but UTAM does not make specific public equity investment decisions directly.

The policy as approved in 1978 and revised in 1994 put the onus of reviewing divestment recommendations on a committee of members of the Governing Council. The members would review the request and make a recommendation to the President, who was then free to accept or reject. This has placed the President in the awkward position of potentially rejecting a recommendation from a group of Governors – in essence the governance framework was reversed inappropriately.

The requirement that Governors spend time reviewing and debating petitions also places a potentially significant burden of work on Governors. They already have a heavy load of board and committee responsibilities. Administrative staff are also very busy dealing with the normal work of the organization. Responding to petitions in a timely manner could add a significant work load, and budget constraints preclude the addition of extra staff to deal with these issues.

The 1978 statement is a mix of policy and procedure which further increases the problems in responding to it. Policy should be relatively fixed – procedures should be amended as circumstances demand. (A parallel in government is the distinction between the law and the regulations.)

For these reasons we have amended the policy as attached. The procedures, which are included for information, are now a separate document that can be amended by the administration without governance approval, as long as they comply with the policy. The establishment of a committee to deal with the review of petitions removes the burden from governors, while maintaining the representative nature of the original policy. The President still has the option to reject, but still is required to report his decision to the Governors.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

The revised policy retains the intent of the original statement, but ensures that petitions are dealt with in a timely and cost effective manner. Procedures are clarified.

RECOMMENDATION:

THAT the University Affairs Board Recommend approval of the revised policy to the Governing Council.

Policy approved by the Governing Council on December 21, 1978.

Policy revised by the Governing Council on December 14, 1994 to make the President, or another senior officer designated by the President, Chair of the Advisory Committee

Social and Political Issues With Respect to University Investment

In developing a mechanism for dealing with social and political issues with respect to University investment, both the External and Business Affairs Committees agreed that, first and foremost, maximum economic return should be the criterion for purchase and sale of stock in all normal circumstances. They did, however, feel strongly that in specific instances where the University's social responsibility as an investor was questioned, credible and effective procedures for responding should exist.

In general, the following principles were accepted:

- (i) the Yale University concept of social injury¹ as the criterion for basing initiatives;
- (ii) the preparation of a convincing brief establishing the case;
- (iii) the presentation of evidence of general concern in the University community by collection of signatures;
- (iv) the examination of the evidence and preparation of a recommendation by a representative committee advisory to the President and finally;
- (v) a decision about action by the President after scrutiny by his Advisory Board.

1. Social injury: the injurious impact which the activities of a company are found to have on consumers, employees, or other persons, particularly including activities which violate, or frustrate the enforcement of, rules of domestic or international law intended to protect individuals against deprivation or health, safety, or basic freedoms; for purposes of these Guidelines, social injury shall not consist of doing business with other companies which are themselves engaged in socially injurious activities.

The procedure for implementing these general principles follows.

Responsibility for initiating a request for University action rests with members of the University community. One or more individuals would prepare a fully documented brief identifying the social injury that should influence investment decisions or exercise of shareholders' responsibilities. When the case has been fully prepared, the instigators of the action would secure support for their cause through the medium of at least 300 signatures endorsing the initiative. Up to 200 of the signatures could come from a single constituency of the University community (teaching staff, students, administrative staff, and alumni members); the remaining 100 signatures must be from at least two other University constituencies with a minimum of 25 signatures from any one constituency.

When signatures have been added to the argument, the material would be deposited in the Office of the President for the attention of the Advisory Board charged with responsibility for reviewing the evidence and recommending a course of University action. This Board would be established by the President with one Governing Council representative from each constituency (teaching staff, students, administrative staff, alumni and government appointee members), with the President, or another senior officer designated by the President, as Chair.

The Advisory Board, having considered the material, would recommend to the President for or against action; the President may take the recommendation to the Governing Council. Possible courses of positive action would include:

- (i) private questioning of the corporate management on the accuracy, extent and implications of the conduct complained of;
- (ii) private urging of change in corporate practice if response to the questions indicates complaints are justified;
- (iii) supporting stockholders' resolutions critical of management by voting proxies;
- (iv) preparing and presenting stockholders' resolutions critical of management practice;
- (v) divestment of holdings.

The President would report all initiatives suggested and all actions taken to the Governing Council at appropriate intervals.

Approved by the Governing Council on December 21, 1978.

Revised by the Governing Council on December 14, 1994, to make the President, or another senior officer designated by the President, Chair of the Advisory Committee.

October 2007

**Policy on Social and Political Issues With
Respect to University Investment**

In responding to questions about social and political issues with respect to University investment, it is acknowledged that first and foremost, maximizing economic return consistent with the University's stated risk tolerance should be the criterion for purchase and sale of stock in all normal circumstances. In specific instances where the University's social responsibility as an investor is questioned, however, credible and effective procedures for responding should exist

Responses should be based on the following principles:

- (i) prudent investment. The University has a fiduciary duty to manage investments responsibly to maximize return on its investments within a policy risk tolerance as approved by Business Board from time to time.
- (ii) the Yale University concept of social injury¹ as the criterion for basing initiatives.

Consideration of questions about social and political issues with respect to University investment must also take into account applicable legislative requirements and government or University policy, as well as the legal standards applicable to prudent institutional investors.

The President, or a senior officer designated by the President, will be responsible for developing such procedures that will include appropriate periodic reports to the Governing Council on matters addressed under this policy.

¹ Social injury: the injurious impact which the activities of a company are found to have on consumers, employees, or other persons, particularly including activities which violate, or frustrate the enforcement of, rules of domestic or international law intended to protect individuals against deprivation or health, safety, or basic freedoms; for purposes of these Guidelines, social injury shall not consist of doing business with other companies which are themselves engaged in socially injurious activities.

October 2007

Guidelines/Procedures for Responding to Social and Political Issues with Respect to University Investment

Raising Issues

Members of the University of Toronto community who wish to raise issues with regard to social or political concerns related to University investments can do so by:

- the preparation of a convincing brief establishing the case;
- the presentation of evidence of general concern in the University community by collection of signatures.

Responsibility for initiating a request for University action regarding its investments rests with members of the University community. One or more individuals must prepare a fully documented brief identifying the social injury that they believe should influence investment decisions or exercise of shareholders' responsibilities. They must also specify the remedy sought.

When the brief has been fully prepared, the instigators of the request for action must secure support for their cause through the medium of at least 300 signatures endorsing the brief. Up to 200 of the signatures could come from a single constituency of the University community (for the purposes of these guideline/procedures, the constituencies are teaching staff, students, administrative staff, and alumni); the remaining 100 signatures must be from at least two other University constituencies with a minimum of 25 signatures from any individual constituency. Each signatory must attest that he/she has read and agrees with the entire content of the brief.

When signatures have been added to the brief, the material is to be deposited with the President or senior officer designated by the president as responsible.

Response

The administration will respond by:

- the examination of the evidence and preparation of a recommendation by a representative committee advisory to the President; and thereafter
- the President's decision about action after consideration of the committee's advice.

A representative Investment Advisory Committee will be established by the President. It will consist of people with appropriate expertise from among the teaching staff, students, administrative staff and alumni. This committee, chaired by a senior officer designated by the President, will consider the briefs. The committee will consult with such investment and other experts as necessary and will make a written recommendation to the President as to an appropriate action in response to briefs.

The President's written decision will be forwarded to the initiators of the brief.

Reporting

The President or designate, will report to Governing Council, or its relevant Board on the disposition of any submissions that have been received.