University of Pennsylvania

Statement on Responsibility Concerning Endowment Securities

May 15, 2003

1. PREAMBLE

- 1.1 The primary fiduciary responsibility of the University Trustees in investing and managing the University's endowment securities is to maximize the financial return on those resources, taking into account the amount of risk appropriate for University investment policy. However, when the Trustees determine that corporate policies or practices cause substantial social injury or substantial environment harm¹, they, as responsible and ethical investors, shall give independent weight to this factor in their investment policies and in voting proxies on corporate securities.
- 1.2 The authority to take ethical factors into account when settling investment policies and voting proxies on endowment securities derives primarily from the stewardship responsibilities which attend the ownership of endowment securities.

2. <u>POLICY GUIDELINES</u>

¹ Substantial Social Injury: With regard to corporate behavior, substantial social injury is defined as the excessive or deliberate injurious impact on employees, consumers, and/or other individuals, or groups resulting directly from specific actions or inactions by a company. Included in this category are actions that violate, subvert, or frustrate the enforcement of rules of domestic or international law intended to protect individuals and/or groups against deprivation of health, safety, basic freedoms or human rights.

Substantial Environmental Harm: Substantial environment harm is defined as conduct that violates, subverts, or frustrates the enforcement of rules of domestic or international law intended to protect the environment. Only actions or inactions by companies that are proximate to and directly responsible for identifiable social injury will be regarded as falling within these guidelines.

For the purposes of these Guidelines corporate activity that creates a potential for social injury or environmental harm to occur shall not itself be construed as socially injurious. Similarly, for the purposes of these guidelines, social injury or environmental harm shall only in unusual circumstances include the act of doing business with other companies which are themselves engaged in socially or environmentally injurious activities.

Under this policy, allegations of substantial social injury or substantial environmental harm will be examined on a caseby-case basis using the best available evidence and allowing parties to the allegation reasonable time to develop and disseminate that evidence.

2.1 Exercise of Shareholder Rights

- a) <u>Voting</u>: The Trustees normally do not vote on any shareholder resolution involving social issues unless they conclude that a company's activities cause substantial social injury or substantial environmental harm. Where the Trustees conclude that a company's activities cause substantial social injury or substantial environmental harm and such activities are the subject of a shareholder proposal which would eliminate or materially reduce the substantial social injury or environmental harm, the Trustees may vote for the proposal and may vote against a proposal that would prevent or materially retard such elimination or reduction, provided such action is not inconsistent with the Trustees' fiduciary obligations. In cases where the proposed remedy is deemed unreasonable, the Trustees may abstain.
- b) <u>Representations</u>: When the Trustees conclude that the company's activities cause substantial social injury or substantial environmental harm, they may make formal or informal representations to corporate management to explain or reinforce their position on proxy issues and on issues where no proxy is presented.
- 2.2 Exceptions

If the Trustees conclude that a specific Trustee action otherwise indicated under these Guidelines is likely to impair the capacity of the University to carry out its educational mission (for example, by causing significant adverse action on the part of governmental or other external agencies or groups, or by causing deep divisions within the University community), then the Trustees need not take such action.

3. ADVICE FROM THE PENN COMMUNITY

- 3.1 The President of the University shall establish an advisory committee to provide advice and make recommendations to the Trustee Subcommittee on Proxy Voting. This committee, called the Penn Social Responsibility Advisory Committee ("Penn SRAC") will be comprised of twelve voting members including: four faculty members nominated by the Faculty; four students (two undergraduates, two graduates) nominated by the Undergraduate Assembly, NEC, GSAC and GAPSA; two alumni representatives appointed by the President; two staff members appointed by the President. Members shall be appointed for at least one year and may be reappointed.
- 3.2 Upon reasonable request, the Office of the Secretary will provide to the community advisory committee, to be treated as confidential by that committee, a copy of the memorandum prepared by the Office of Investments, incorporating the reports of the Investor Research Responsibility Center (IRRC). This memorandum will also be provided to the Trustee Subcommittee on Proxy Voting. The memorandum will include:
 - 1. the social and environmental issues that have been identified by the IRRC as possible issues of concern;

- 2. a confidential list of companies in the Endowment's portfolio that have upcoming proposed shareholder resolutions related to those issues, and required response dates; and
- 3. a copy of the IRRC's analysis of the impact of each shareholder resolution on the company.
- 3.3 Within the Guidelines established under Section 2, Penn SRAC may examine proxy voting issues involving the University's endowment securities and make appropriate recommendations for action by the Trustee Proxy Voting Subcommittee. Such recommendations shall take into consideration the following factors: (1) the facts and information the community committee has gathered in its study of the issues; (2) the opinions expressed within the Penn community regarding the issues; and (3) the legal and financial impact of the recommended action.
- 3.4 The recommendations shall be in writing and provided to the Office of the Secretary, for consideration by the Trustee Proxy Voting Subcommittee. The recommendations should be clear and concise and accompanied by factual findings and an analysis of the question involved.
- 3.5 The Trustee Proxy Voting Subcommittee will consider Penn SRAC recommendations and will then make decisions for action under this policy. The Subcommittee will inform Penn SRAC through the Office of the Secretary of the actions taken by the Subcommittee.

4. OTHER MATTERS

- 4.1 Nothing in this Statement shall be deemed to delegate the Trustees' proxy voting responsibilities, or any part of them, to any other person or body.
- 4.2 The Trustee Proxy Voting Subcommittee may amend this Statement from time to time.
- 4.3 Penn SRAC may, from time to time, submit recommendations to the Trustees for amendments to this Statement.