

## White Paper:

### The Socially Responsible Investing Discussion Group at Dickinson College

*For more information, visit our website at: [www.dickinson.edu/finops/investments](http://www.dickinson.edu/finops/investments)*

#### *Background and Purpose*

The Socially Responsible Investing (SRI) Discussion Group was convened by President William Durden in August 2007. Inspiration for the group's establishment came from a proposal submitted the previous winter by students regarding the issue of divestment from companies in Darfur, Sudan. These students were enrolled in a First-Year Seminar titled "War Crimes, Tribunals, and Truth Commissions" in which they learned about genocide and human rights abuses. After questioning what could be done at the college level to impact current abuses – primarily the crisis situation in Darfur – these students began to examine Dickinson College's investment funds to determine whether any action should or could be taken against firms in which the College's endowment was invested.

The SRI Discussion Group was created to familiarize the Dickinson community with the College's investment policy and portfolio and to consider how SRI principles align with Dickinson's status as a nonprofit educational institution. The Group has spent the past year learning about the college's investments and debating how the principles of social responsibility and sustainability can best be implemented in relationship with the College's mission and its endowment and financial policies.

The SRI Discussion Group is composed of faculty, students, alumni and administrators who represent a variety of disciplines and viewpoints. Members during 2007-2008 included Prof. Jeremy Ball, History; David Durstewitz '10, Dickinson SAVES; Prof. Michael Fratantuono, IB&M; Caroline Peri '10, Students for Social Action; Matthew Schey '09, Dickinson College Student Senate; Prof. Helen Takacs, IB&M; Prof. Nicola Tynan, Economics; Jonathan Williams '87, Investment Director, PNC Wealth Management and Institutional Investments, alumni representative; Annette Parker '73, Vice President and Treasurer; and David Walker, Associate Vice President and Associate Treasurer.

#### *Terminology and Theory*

- **Corporate Social Responsibility (CSR)** represents a management approach that creates value for all of a firm's stakeholders. Rather than narrowly focusing on financial returns for shareholder investors, CSR and stakeholder theory postulate that firms are in an exchange relationship with employees, customers, suppliers, the government, and the community, in addition to shareholders, for the various resources necessary to operate and prosper. A firm must provide value to all stakeholder groups to ensure continued access to resources and to position itself for long-term

success.<sup>1</sup> In nonprofit organizations, such as Dickinson College, social responsibility considers stakeholders, including students, alumni, faculty, administration, staff, our local community of Carlisle and Cumberland County, and the broader community of educational institutions and international affiliations.

- **Socially Responsible Investing (SRI)** recognizes that all investment decisions have implications beyond the financial performance of those decisions. Thus, investment decisions must also consider social and environmental ramifications. Investors who follow SRI principles aim to achieve the balance between obtaining competitive financial returns and establishing a sustainable society. Because managing investments is part of managing operations, SRI falls under the umbrella of CSR. There are three distinct approaches to investing money in a socially responsible way: investment screening, shareholder advocacy, and community investment. The screening of stocks can be either positive (e.g., choose to include in an investment portfolio companies that develop alternative energy technologies) or negative (e.g., choose to exclude from a stock portfolio companies that manufacture weapons). Shareholder advocacy – also referred to as shareholder activism or shareholder engagement – involves using one’s voting power as a stockholder to influence corporate behavior positively. Mechanisms of shareholder engagement include proxy voting, shareholder resolutions, and direct dialogue with management. Community investment represents direct investment in local projects to support or enhance an organization’s neighbors and neighborhood.<sup>2</sup>
- **Sustainability**, as a managerial construct, has its roots in the Brundtland Commission’s 1987 definition of sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”<sup>3</sup> A sustainable approach to investing, which is synonymous with SRI, recognizes that investment decisions made in the current cycle shape our options for the future in the broadest sense.
- The **Triple Bottom Line** refers to the management of three bottom lines or net business outcomes: financial, social, and environmental. Increasingly, both for-profit and nonprofit organizations are pursuing outcomes that balance economic prosperity, environmental quality, and social justice.<sup>4</sup> The Triple Bottom Line approach to sustainability is also known as the People, Planet, and Profit approach. “People” references human capital and constitutes fair labor policies and organizational practices that benefit the surrounding community. “Planet” pertains to natural capital and encompasses the actions of organizations to safeguard and enhance our natural environment. “Profit” concerns financial capital and addresses the need for economic

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<sup>1</sup> Clarkson, Max, B.E. 1995. A stakeholder framework for evaluating corporate social performance. *Academy of Management Review*, 20: 92-111.

<sup>2</sup> Domini, Amy. 2001. *Socially Responsible Investing: Making a Difference and Making Money*. Chicago, IL: Dearborn Trade Books.

<sup>3</sup> World Commission on Environment and Development. 1997. *Our Common Future*. Oxford: Oxford University Press.

<sup>4</sup> Elkington, John. 1997. *Cannibals with Forks: The Triple Bottom Line of 21<sup>st</sup> Century Business*. Hoboken, NJ: Wiley & Sons.

benefits that ensure the long-term viability of both the organization and the community in which it operates.

***The Nature of Investments at Dickinson College***

Dickinson’s endowment was valued at \$347.6 million on June 30, 2008. The Committee on Investments of the Board of Trustees is responsible and accountable, as delegated by the Board, for the prudent management of the endowment’s assets, including:

1. Developing and maintaining investment policy in light of the College’s strategic plan
2. Setting risk tolerances and controls
3. Allocating assets
4. Appointing and evaluating the investment office
5. Reporting to the Board periodically the results of the investment program

On June 30, 2008, the College’s total endowment comprised the following:

Pooled endowment	\$263.0 million
Pledges receivable	29.5 million
Sandia Foundation assets	32.5 million
Other funds held in trust by others	6.7 million
Miscellaneous funds invested separately	12.8 million
Deferred gifts	<u>3.1 million</u>
Total Endowment June 30, 2008	\$347.6 million

Dickinson’s pooled endowment is invested under the direction of the Committee on Investments of the Board of Trustees “to optimize returns for current and future generations of students with an acceptable level of risk.”<sup>5</sup> Other assets are managed by various banks and trustees, as designated by the original donors who gave the funds to the College. 96.6% of the total endowment is invested in mutual funds, including most of the pooled endowment. Of the remaining non-pooled assets (deferred gifts, other endowment funds, funds held in trust by others, and pledges receivable), all are held in mutual funds, pooled fund investments or real estate, with the exception of pledges receivable.

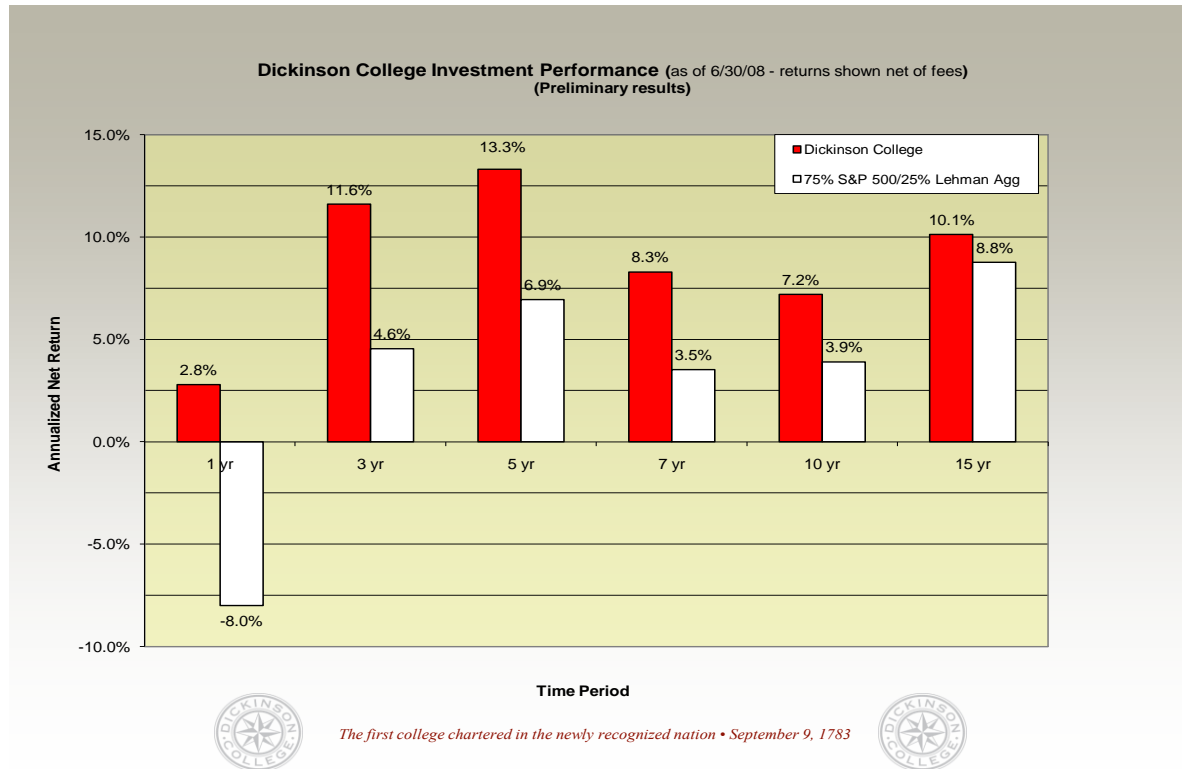
On May 6, 2006, the College’s Board of Trustees approved a proposal brought forward by its Committee on Investments to engage Investure as the College’s investment office. Founded by Alice Handy, formerly Chief Investment Officer for the University of Virginia from 1974 through 2003, Investure also serves as a consortial investment office for Smith, Middlebury, Barnard, and Trinity colleges, the University of Tulsa, the Colonial Williamsburg Foundation and three other foundations.

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<sup>5</sup> Investment Policy (Revised June 4, 2007), Committee on Investments of the Dickinson College Board of Trustees.

Investure provides both highly sophisticated investment advice and access to a wide variety of investment options—normally available only to large endowments—through aggregating multiple mid-size endowments into one large investment pool, currently in excess of \$6 billion. Because these funds are aggregated and invested in mutual funds, neither investment screening nor shareholder advocacy is an option for this portion of our endowment.

Dickinson College has consistently earned above-average returns on the pooled endowment.



A small segment of the College’s pooled endowment (3.4%) is managed in a portfolio of large cap (i.e., firms that have a market capitalization – or value – greater than \$5 billion) stocks. For this segment of our investments, shareholder engagement is an option. In the future, proxy voting strategies related to the firms held in this account will be discussed at the bi-monthly meetings of the Socially Responsible Investing (SRI) Discussion Group and recommendations will be made to the investment manager.

The College recently exercised its ability to intervene as a shareholder when the SRI Discussion Group held a direct dialogue with the management of Schlumberger, Ltd., a French oil-technology company that provides the equipment and tools necessary for companies to drill and process crude oil and one of the holdings in this direct investment account. Schlumberger is considered by some to be controversial, because it supplies technology equipment to energy firms that directly contract with Khartoum, the government generally deemed responsible for facilitating the violence associated with the crisis in Darfur. In April 2008, the SRI Discussion Group members participated in a

conference call with several executives from Schlumberger and members of the team at Sands Capital Management, the investment managers on the account. Members of the Discussion Group had the opportunity to ask questions regarding Schlumberger's involvement in Sudan and to learn more about programs put in place by Schlumberger that benefit local communities in Sudan. These include the drilling of community wells for potable water, providing for the medical needs of internally displaced persons, and building schools equipped with science laboratories.

A smaller segment of the College's endowment (\$2.1 million) is managed by the Baltimore-Washington Conference of the United Methodist Church (BWC) in an "SRI" fund. The BWC uses negative screening to determine which companies to exclude from its stock portfolio. Specifically, the BWC does not invest in any company that produces or obtains 10% or more of its revenue from the sale of alcoholic beverages, tobacco products, pornographic media, or certain types of weapons. The BWC also does not purchase stock in companies that own or manage gambling operations.

With regard to community investments, Dickinson College has actively engaged in projects with Carlisle and Cumberland County for many years. Recent investments include providing 25,000 square feet of rent-free space to a local food bank called Project S.H.A.R.E., contributing \$100,000 seed money for the "High I" initiative to spark retail revitalization in downtown Carlisle, and pledging \$50,000 to fund a traffic study in conjunction with the Borough of Carlisle's efforts to reduce truck traffic and improve air quality. Further information on Dickinson's direct community investments can be found on page 15 of the response to the 2008 Sustainable Endowments Institute survey at: <http://www.dickinson.edu/uploadedFiles/finops/transparency/SEI%20Survey%202009.pdf>.

### ***External Evaluation***

In summer 2007, Dickinson College began participating in the annual Sustainable Endowments Institute (SEI) higher education survey, whose purpose is "to advance sustainability in campus operations and endowment practices."<sup>6</sup> SEI publishes an annual *College Responsibility Report Card* for sustainability efforts at the 200 American colleges and universities with the largest endowment values. (300 institutions have been invited to participate in the 2009 Report Card).

The overall SEI grade for Dickinson College last year was "B+," placing Dickinson on the list of "Campus Sustainability Leaders." The College earned high marks in the categories of Administration, Climate Change & Energy, Food & Recycling, Transportation, and Investment Priorities; a moderate mark in the category of Green Building; and lower marks in the categories of Endowment Transparency and Shareholder Engagement. A complete copy of this report, with details regarding each category, is available on the Dickinson Investment web page or at <http://www.endowmentinstitute.org/report2008/profile65.pdf>. Information was submitted for the 2009 *SEI Report Card* this summer. Results of the survey will be published by the end of September 2008.

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<sup>6</sup> <http://www.endowmentinstitute.org/>

## *Moving Forward*

At the beginning of discussions in fall 2007, participants approached the idea of investing the College's endowment from multiple perspectives. Some wanted Dickinson to invest in green funds; others advocated divestment, particularly from firms related to the genocide in the Sudan; and others supported investing for optimal returns. The turning point for the SRI Discussion Group occurred midyear, when the individual members of the group began to search for common ground on which to proceed. The group concurred on the development of a "Triple Bottom Line" model for the College, looking to achieve high levels of financial, environmental, and social success.

What emerged from the Group's discussions was a commitment to use the College's influence as a shareholder to promote socially responsible corporate behavior among firms in which the College is invested. The Group also concluded that improving transparency regarding the College's investment strategy and promoting educational initiatives within the Dickinson community and with prospective students is of the utmost importance. During the summer of 2008, two students—both members of the SRI Discussion Group—served as interns in the Office of Financial Operations, creating a website explaining the College's investment portfolio, policies and practices. The results of their internship are available for review at: [www.dickinson.edu/finops/investments](http://www.dickinson.edu/finops/investments).

The goals for the SRI Discussion Group in the coming year (2008-2009) are quite different from the goals at the start of the Group's work in fall 2007. Instead of examining divestment, the group will pursue shareholder engagement in the form of proxy voting and direct dialogue with management of firms in the portfolio. The Group will continue to learn more about socially responsible investment practices, and will examine new ways to promote and strengthen Dickinson's community investments. This year, the SRI Discussion Group also intends to inform the Dickinson community about responsible investing through the release of its new investment website and through the **Common Hour program on September 25 at noon in Rubendall Recital Hall**. The group will also work with the Clarke Forum to consider a speaker in spring 2009. Long term, the SRI Discussion Group aims to make its work an integral and permanent part of Dickinson College.

*Edited by Professor Helen Takacs, International Business and Management with colleagues from the SRI Discussion Group, August 2008.*

**Please join us for a Common Hour discussion at noon, September 25, 2008 in Rubendall Recital Hall, entitled:**

**"From Divestment to Engagement: What it means to be Socially Responsible"**

**For more information, go to:**

<http://www.dickinson.edu/finops/investments/info/index.aspx?id=242&ekmense=c580fa7b4202421>