

# Sustainable & Just Investing at Michigan State University: A Report to the Board of Trustees

## AD HOC UNIVERSITY SUSTAINABLE INVESTMENT WORKING GROUP

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## **Executive Summary**

In the Fall of 2021 a group of dedicated faculty, students, and concerned partners undertook a fact-finding investigation to more fully understand the policies and practices that the Michigan State University Board of Trustees were employing to guide the University’s investment portfolio. Valued at an estimated \$4.5 billion dollars, the management of this public endowment is the responsibility of the MSU Board of Trustees (BOT) and is critical to the fulfillment of MSU’s mission. This investigation by the ad hoc group was motivated in part by a growing societal awareness of the importance of aligning institutional investment practices with an agreed-upon set of values and goals.

Over several months the Ad Hoc University Sustainable Investment Working Group reviewed policy documents, examined the practices of other higher-education institutions who had adopted value-guided investments, developed and administered a fact-finding survey that was completed by the MSU Board of Trustees’ designated representative, and prepared a summary analysis and offered recommendations on how MSU might align its investment portfolio with the values articulated in its recently adopted Strategic Plan and commitments to diversity, equity and inclusion.

The working group’s analysis identified specific recommended actions that the MSU BOT could implement that would increase the transparency of their current investment practices, more clearly define MSU’s “social conscience”, diversify the representation of the advisers/consultants that provide expert advice to the BOT on investment opportunities, and clarify those parties’ roles in the value-guided portfolio management process.

The report that follows is a detailed accounting of the analysis conducted by the working group and the basis for the recommendations suggested. Every reasonable effort was made to ensure the accuracy and appropriateness of the information provided. We apologize in advance for any errors or misinterpretation of fact that may have occurred in this process.

## **Background**

The Ad Hoc University Sustainable Investment Working Group (USIWG) was formed in response to a growing interest by the MSU community to more fully understand the MSU Board of Trustees (BOT) institutional investment policies and practices. Of particular interest was the alignment of the BOT policies and practices with the recently adopted MSU Strategic Plan and the plan to address Diversity, Equity, and Inclusion at MSU.<sup>1</sup> The Strategic Plan, formally termed *MSU 2030*,<sup>2</sup> was endorsed by the Board of Trustees in September 2021. Through various planning and prioritization activities with various Spartan community members, *MSU 2030* describes MSU's institutional values, goals, objectives, and desired impact within the next eight (8) years and outlines key metrics for implementation evaluation. A complementary strategic visioning effort for diversity, equity, and inclusion was simultaneously undertaken at the university, and in August of 2021, the *Diversity, Equity, and Inclusion Report and Plan*<sup>3</sup> was published by the Presidential Office. It details goals, objectives, and the overall desired impact for DEI efforts the university strives to achieve by 2030. The primary objectives in these reports that influenced the working group's mission include:

- *Goal*: "Provide exemplary stewardship of institutional resources to foster the long-term sustainability of MSU and its high-quality education, research and outreach and engagement programs" (*MSU 2030*, 2021, n.p.)
- *Goal*: "Become a national leader in increasing diversity, promoting inclusion, ensuring equity and eliminating disparities on our campus and beyond" (n.p.)
- *Goal*: Increase Diversity (*DEI Report & Plan*, 2021, p. 45)
- *Recommendation*: Create and Administer Climate Surveys (p. 56)
- *Recommendation*: Vendors and Suppliers: Expand efforts to incorporate diversity, equity, and inclusion into work with vendors and suppliers (p. 69)
- *Takeaway*: "To achieve national prominence, MSU must intentionally transform the core features of its institutional culture, elements of its organizational infrastructure and embed the values of diversity, equity, and inclusion within day-to-day practices" (p. 71)

At their regular meeting in November of 2021, the University Council overwhelmingly supported a resolution (Resolution UC2122R02 - 11/23/2021) that asked the BOT to create of a ten-person task force to investigate and identify MSU's current investment policies and practices and how they may align with the university's social, economic, and environmental values as stated in its Strategic Plan and DEI policy at MSU. This resolution was submitted to the BOT for their consideration, but subsequent communications confirmed that they would not be acting on the resolution as requested. Instead, a group of interested faculty, students and others voluntarily formed the USIWG with the expressed purpose of conducting a fact-finding effort into the investment practices of MSU and their alignment with recently adopted plans and goals. This report is a summation of that effort conducted over Spring and Summer of 2022.

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<sup>1</sup> MSU DEI Steering Committee. (2021, August 10). *Diversity, Equity, and Inclusion: Report and Plan*. Presidential Strategic Initiatives. [https://president.msu.edu/assets/documents/DEIreportandplan\\_081021.pdf](https://president.msu.edu/assets/documents/DEIreportandplan_081021.pdf)

<sup>2</sup> MSU Strategic Planning Steering Committee. (2021, September). *MSU 2030*. Presidential Strategic Initiatives. <https://strategicplan.msu.edu/strategic-plan>

<sup>3</sup> MSU DEI Steering Committee. (2021, August 10). *Diversity, Equity, and Inclusion: Report and Plan*. Presidential Strategic Initiatives. [https://president.msu.edu/assets/documents/DEIreportandplan\\_081021.pdf](https://president.msu.edu/assets/documents/DEIreportandplan_081021.pdf)

## **Process**

During the Spring of 2022, the USIWG constructed a “fact-finding” survey to gather basic information on the BOT policies and practices that guided MSU’s investment portfolio. Simultaneously, the USIWG conducted preliminary research on what peer institutions of higher education were doing in regard to managing their endowments to reflect commitments to environmental, social and governance (ESG) goals.

On April 22, 2022, at the regularly scheduled BOT meeting, the USIWG presented its brief fact-finding survey to the BOT for their consideration. The BOT directed the USIWG to work with the BOT Secretary and the University’s Chief Investment Officer to complete the fact-finding survey. In June, a response was received from the MSU Chief Financial Officer. The responses to the fact-finding survey and the analysis of these responses serve as the basis of this report and the subsequent recommendations.

## **Why We Should Care How MSU Invests its Endowment Resources: The Historical and Global Context**

The basic principles that underly the practices of social, environmental and “value”-driven investments are that institutions or individuals who have adopted a set of social, environmental, or other values and beliefs should manage their financial resources/power to reflect them. To do otherwise is not only self-defeating but fundamentally disingenuous.

MSU in the past has demonstrated bold leadership in value-driven investment. In 1978, the Michigan State University Board of Trustees courageously and boldly divested from companies doing businesses in racially apartheid South Africa. MSU’s divestment was promoted by pressure from a student and faculty-led movement and reflected a belief that MSU should not be seeking financial gain at the cost of doing business in a place where racial bigotry was institutionalized (Saripalli, 2018).

In more recent times, however, the MSU BOT has not outwardly reflected the same push to uphold its stated mission and values. For example, divestment from fossil fuels, despite having strong support from several student organizations and faculty, has not been aggressively pursued by the BOT due to contractual timelines.

Russia’s invasion of Ukraine in February 2022 motivated many higher education institutions to divest from Russian-related fields. In March of 2022, Arizona State University announced it would divest from its Russian assets, totaling \$4 million. The University of Colorado also divested its 0.1 percent of the university’s holdings (totaling \$2.6 billion) in Russian companies and called to exit its \$3.5 million in mutual funds, including investments in Russia, “as early as allowable” (Whitford, 2022). The University of Michigan also pledged to end its investments in Russia and never invest in Russian assets again. The University of California already had virtually zero Russian assets because of its previous decision to divest from fossil fuels, given their financial risks and negative impact on climate change (Whitford). Despite this, Michigan State University has yet to comment on its actions regarding any Russian holdings.

There are numerous examples of institutions who have managed their investment portfolios to reflect their agreed upon values. According to the 2021 NACUBO<sup>4</sup>-TIAA *Study of Endowments* that included 720 institutions, 47.4 percent of endowments factor responsible investing into their portfolio evaluation process (NACUBO, 2022). Value-driven investment pools and objectives can attract motivated donors. As such, incorporating principles of sustainability in institutional investment policy and practice has a positive impact on financial rates of return while also supporting the social and environmental resilience of communities near and far.

## **Case Studies: Comparable Higher Education Institutions**

To understand more fully the challenges and opportunities of value-based investing, the USIWG examined the practices of select higher institutions who had initiated investment practices that sought to reflect their stated institutional values. Socially responsible investing, or SRI, is an important part of many modern institutional endowments' investment policies and practices. Value-driven investments interpret long-term risk differently than other investment practices by viewing ESG and DEI issues as components of market risk and acting in accordance. Around 80% of college and university endowments have added sustainability and equity values into their investment policy, and there is growing confidence that responsible investing can outperform basic market returns and maintain the interest of students and stakeholders who share the values.<sup>5</sup>

In selecting peer institutions to which we might compare the investment practices of to that of MSU, the USIWG employed the Association for the Advancement of Sustainability in Higher Education's (AASHE) Sustainability Tracking, Assessment & Rating System, or STARS. STARS operates as a self-reporting framework for colleges and universities to share their progress in advancing the values of sustainability, including investment practice. These reports are updated every three years and are awarded a Platinum, Gold, Silver, or Bronze distinction for the level of sustainability achieved. Highly rated institutions achieve their status in part by managing their endowment's portfolio in accordance with these values. MSU has yet to embrace this practice in the investment category. In 2022, MSU was rated Gold by the system, but did not report any sustainable investment practices. It is a stated goal of MSU to achieve a Platinum rating by 2030.<sup>6</sup> The following peer universities have been rated Platinum and provided ESG/SRI initiatives in their submissions.

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<sup>4</sup> National Association of College and University Business Offices

<sup>5</sup> 2021 NACUBO-TIAA *Study of Endowments*®

<sup>6</sup> S. Stanley, Jr., Spartan Community Letter, June 29, 2022

## Arizona State University

Public Institution  
Student Population: 136,000

### VALUE OF HOLDINGS IN ASHEE-DESIGNATED SUSTAINABILITY CATEGORIES:

**\$449,836,546**  
(45.18% of total investment pool)

Policy anticipates a long-term shift of markets impacted by **climate change, resource scarcity, demographic shifts, advances in healthcare, evolving transport, educational innovation,** and **financial inclusion.**

[2021 ASU Foundation SRI Report](#)

### MILESTONES

2015	2016	2018	2019
Created sustainable investment policy	Established ESG sub-committee	Began student-led sustainable investing fund	Established separate \$100-million endowment pool for SRI

DIVESTMENT: "Our strategy is not predicated on where we don't invest, but rather where we choose to allocate capital in order to advance a sustainable, equitable future."

## University of California, Berkeley

Public Land-Grant Institution  
Student Population: 45,000

### VALUE OF HOLDINGS IN ASHEE-DESIGNATED SUSTAINABILITY CATEGORIES:

**\$1,163,200,000**  
(8.31% of total investment pool)

Policy uses a proprietary framework for its pool to establish core ESG principles that will influence investments. The eight principles are **climate change, food and water security, inequality, aging population, diversity, human rights, circular economies,** and **ethics and governance.**

[UC Sustainable Investments Info](#)

### MILESTONES

2008	2020-21 RETURNS	2019	2020
Founded <a href="#">student-led sustainable investing fund</a> in Haas School of Business	Benchmark Investment: 36.7% Haas Sustainable Investment: 40.9%	Published <a href="#">DEI Framework</a> under "Diversified Returns" initiative	Applied responsible engagement overlay service to analyze holding and proxy voting

## University of New Hampshire

Public Land-Grant Institution  
Student Population: 14,000

### VALUE OF HOLDINGS IN ASHEE-DESIGNATED SUSTAINABILITY CATEGORIES:

**\$138,321,566**

(46.77% of total investment pool)

Policy incorporates analysis of ESG characteristics for prospective and existing investment managers, including through annual surveys.

----- [UNH Foundation Endowment Info](#) ----- [2021 UNH Foundation SRI Report](#) -----

### **MILESTONES**

<b>2015</b>	<b><u>5-YEAR RETURNS</u></b>	<b>2017</b>	<b>2018</b>
Created separate ESG investing pool	<b>Main pool: 10.6%</b> <b>ESG pool: 13.2%</b>	Established Committee on Investor Responsibility	Adopted UN's six Principles for Responsible Investing

**DIVESTMENT:** "[Not an] explicit exclusionary policy, but one which encourages fund managers to take ESG factors into consideration when selecting underlying investments."

## **Fact-Finding Survey & Analysis**

During the Spring of 2021, the working group discussed its existing understanding and research at the time to generate a survey with ten questions to the Board of Trustees to gain a deeper understanding of MSU's investment processes and policies. The Working Group presented the survey to the Board at its public meeting on April 22, 2022. After the meeting, the survey was passed along to the Chief Investment Officer. The Working Group received a response to the survey from Special Assistant to the Board of Trustees, Jacqueline VandenBosch, on June 20, 2022. The Board's responses to the survey, as well as the original questions, and an analysis of the Board's response to each question are reflected in the following section.

**1. The MSU Board of Trustees (BOT) Investment Policy's General Statement (Sec. I) calls upon the BOT to "exhibit social conscience" in the administration of the University's Investments. How do you define "social conscience"? How is our "social conscience" articulated and applied? Please provide examples of how this policy has been applied.**

**Answer =** 'Social conscience in the Administration of the University's investments is exhibited based on the selection, appointment, monitoring, and termination of investment managers.'

**Analysis** = According to the Oxford Dictionary a **social conscience** is "a sense of responsibility or concern for the problems and injustices of society".<sup>7</sup> No examples were provided nor are any specific criteria offered to clarify how "social conscience" is expressed by the BOT.

**Recommendation:** To apply a **social conscience** the BOT must articulate what it believes to be the problems and injustices of society. The BOT needs to adopt a statement that articulates these concerns, so actions taken in the "selection, appointment, monitoring, and termination of investment managers" adheres to these values. The BOT should then adopt an evaluation measurement to ensure the implementation of its revised policy in investment decisions going forward.

*For further details as to how to adopt and implement a more comprehensive, sustainable, and just investment policy, please see PA-9 through PA-11 as reported by Arizona State University to the Association for the Advancement of Sustainability in Higher Education, Sustainability Tracking, Assessment & Rating System (STARS):*  
<https://reports.aashe.org/institutions/arizona-state-university-az/report/2020-03-05/PA/investment-finance/PA-10/>

## **2. Are the Budget and Finance Committee meetings open to the public? If yes, when are they held? If not, why aren't they? Additionally, are the minutes or recordings of the meetings available for public review?**

**Answer** = 'None of the Board of Trustees committees (Academic Affairs, Audit Risk and Compliance, Budget and Finance, Investment Advisory Subcommittee, or Student Life and Culture) keep minutes of committee meetings nor are they generally open to the public as the Board in committee is not acting in a formal session. The Michigan Constitution, Article 8, Section 4, provides that formal sessions of the BOT shall be open to the public.

'As it pertains to the public disclosure of investment information, you may also want to review the *Confidential Research and Investment Information Act*.'

<http://legislature.mi.gov/doc.aspx?mcl-390-1554a>

**Analysis** = The response to this question asserts that the exemptions under the Michigan Freedom of Information Act provide a shield for the BOT to conduct the public's business regarding the allocation of public resources without public scrutiny. Most exemptions from the Michigan Freedom of Information Act serve to protect the privacy of individuals. It is not clear what public benefit is accrued by applying this principle in managing the endowment of the university.

**Recommendation** = The BOT is not required to close these meetings to the public by the Michigan Freedom of Information Act. However, by opening these meetings to the public, the BOT will demonstrate its stated commitment to greater transparency.

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<sup>7</sup> <http://www.oxforddictionaries.com/definition/english/social-conscience>



**3. Are the Investment Advisory Subcommittee meetings open to the public? If yes, when are they held? If not, why not? Are the subcommittee meeting minutes or recordings of the meetings available for public review? Finally, how are members of the advisory subcommittee selected?**

**Answer** = ‘The IAS meetings are not open to the public. The external members of the IAS are selected as per the *Policy Manual of the Michigan State University Board of Trustees*, Section VIII.’<sup>8</sup>

**Analysis** = The Investment Advisory Subcommittee is a subcommittee of the Committee on Budget and Finance. Its role and responsibilities are set forth in the Board’s Investment Policy (Policy Manual of the Michigan State University Board of Trustees, 2019, p. 171), and membership regulations are as follows:

1. The committee will have four (4) current Trustees as members.
2. The committee will have five<sup>9</sup> (5) individuals from outside the MSU community as members.
3. The President, Chief Investment Officer and the Vice President for Finance and Treasurer will be ex officio members of the committee without voting rights.<sup>10</sup>
4. The Committee on Budget and Finance, in consultation with the President, the Executive Vice President for Administration, the Chief Investment Officer and the Vice President for Finance and Treasurer, will select the outside members of the committee to fill vacancies.
5. Outside members will serve staggered three--year terms and may be reappointed.
6. Outside members shall possess high ethical standards and have wide-ranging institutional investment experience.
7. Outside members will be required to comply with Board-approved conflict of interest standards.
8. Members of the committee are expected to regularly attend committee meetings in person or, when necessary, electronically.

**Recommendations** = If the BOT wishes to be transparent in managing the resources of MSU, IAS meetings should, at least in part, be open to the public. The Board should consider appointing additional advisors who have strong experience in ESG and DEI practices. Similar to Arizona State University, which adopted a ESG Subcommittee, MSU should appoint subcommittee members who could give quality advice on sustainable and value-guided investments.

**4A. Who are the Investment Consultants for MSU? Please identify by name and firm.**

**Answer** = ‘Albourne Partners Limited, Ltd, and in the United States as Albourne America LLC, registered with the SEC-IARD number 126582.’ <http://www.us-albourne.com>

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<sup>8</sup> <https://trustees.msu.edu/bylaws-ordinances-policies/policies/Policy-Manual-Updated-2019-09-06.pdf>

<sup>9</sup> It should be noted that, currently (August 2022), there are only four (4) external members.

<sup>10</sup> Membership: <https://investments.msu.edu/investment-advisory-subcomm-mbrs.html#:~:text=The%20Investment%20Advisory%20Subcommittee%20>

**Analysis** = In investigating Albourne LLC, as the investment consultant for MSU, we note that in 2011, they have signed the UN PRI (United Nations Principles for Responsible Investing), along with 7000 other organizations. An ESG framework was developed by Albourne based on the PRI,<sup>11</sup> but it is unknown if this evaluation is used for Michigan State’s investment portfolio.

Albourne has a statement in its website related to DEI:

We passionately believe that our clients, and the managers they select, will be better investors when they create an environment which welcomes, promotes, and harnesses diversity in its many forms. At Albourne, we have taken steps to evaluate our internal processes to support the diverse global team that we are immensely proud of. Today, Albourne is a global firm, with 11 locations and a 51% male/49% female gender split.

**Recommendations** = See 4b below.

**4B. How are the consultants selected? What is the process for identifying consultants? How often does the BOT Budget and Finance Committee meet with the consultants? Are these meetings open to the public?**

**Answer** = ‘Albourne was selected through the university’s regular purchasing process with a *Request for Proposal* (RFP) in 2017. The Budget and Finance Committee does not meet with Albourne. Albourne provides the Investment Office staff with investment advice, assists with due-diligence, and provides monitoring services for MSU’s hedge fund and private investment portfolios.

‘The Investment Office also solicits from and contracts with other market participants to obtain timely investment and market information, as provided for by Section VII-2 of the Investment Policy.’

**Analysis** = The response indicates the procedure of selecting consultants utilizes the University’s regular purchase process. The communication between the selected consultant and the BOT does not occur directly but is managed by the Chief Investment Officer of MSU; there is no indication of reporting frequency between parties.

**Recommendations (4a & 4b)** = Relying upon the advice of a single firm (regardless of their caliber of expertise) may not provide the BOT with a sufficient breadth and scope of investment opportunities. The BOT should consider engaging additional consulting firms who could bring other perspectives to its investments. Engaging firms that specialize in managing Socially Responsible Investments (SRI) and Environment, Social and Governance (ESG) portfolios, or firms who focus on Michigan investment opportunities or opportunities to invest in women/minority-owned businesses would be helpful in creating and guiding a value-driven investment portfolio. Additionally, the BOT should consider utilizing networks between higher education institutions and consultants, e.g. NACUBO, to help choose sustainable and equitable investments with high likelihoods of positive return. A strong network can allow for shared ideas, such as creating a dedicated ESG portfolio or “Spartan Green Fund”, that would better align MSU’s stated sustainability and equity values to its investment policies and practices.

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<sup>11</sup> <https://www-us.albourne.com/albourne/news/3809730>

## 5. Who are the Investment Managers for MSU?

**Answer** = ‘The Investment Office publishes on its website, with a 6-month lag, a complete list of investment funds comprising the CIF, and the quarter-end value of those investments at:

<https://investments.msu.edu/list-of-investments.html>

‘The full list of investments held by MSU at the end of the fiscal year is also published as part of the university’s Audited Financial Statements.

‘The investment office does not make public any contact information.’

**Analysis** = The intent of this question was to identify specifically who was acting as Investment Managers on behalf of the BOT in managing MSU’s endowment. As specified in MSU’s current Investment Policy (Amended 9/10/21)<sup>12</sup>:

*Each investment manager:*

1. *Shall report at least quarterly to the CIO and/or Senior Vice President, Chief Financial Officer and Treasurer as applicable, on its performance and other appropriate matters;*
2. *Is authorized to execute investment transactions within its established guidelines, subject to any restrictions established by the Board and/or CIO and/or Senior Vice President, Chief Financial Officer and Treasurer as applicable*
3. *Shall provide other necessary information for the development of interim reports and shall meet, as necessary, with the CIO and/or Senior Vice President, Chief Financial Officer and Treasurer as applicable; and*
4. *Shall vote all proxies in a manner most likely to preserve or enhance the value of the underlying investments and normally to support management on routine matters.*

Of particular interest to the Ad Hoc Working Group was the potential role Investment Managers might play in voting on proxy issues. Proxy votes are often opportunities for shareholders to express their values and beliefs in the behavior of companies in which they own shares. For example, equity pay issues and SRI/ESG proposals are occasionally brought to corporate annual meetings by shareholders and acted upon by proxy votes. In those companies where MSU may be a shareholder the actions of the Investment Managers may reflect the values and beliefs of MSU. Providing clear direction to Investment Managers on those proxy votes that may advance MSU’s commitments to DEI and Sustainability is another way to insure MSU investment practices align with our stated values.

**Recommendations** = It appears from this response provided that the BOT did not understand the nature of this question and instead provided a link to the actual investments the institution held. As we shall see in response #7, the issue of proxy voting is muddied by the nature of MSU’s investment holdings that often do not allow for proxy votes in companies in which MSU owns shares. Even though the opportunity for proxy voting is limited, the BOT should adopt a proxy vote policy that reflects a commitment to the principles of DEI and SRI/ESG practices and

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<sup>12</sup> <https://trustees.msu.edu/bylaws-ordinances-policies/policies/01-07-01.html>

instruct that *all proxies shall vote in a manner most likely to preserve or enhance the value of Diversity, Equity and Inclusion and Environmental, Social and Governance principles. Where necessary the Investment Manager shall seek specific guidance from the BOT Finance Committee on proxy votes to ensure compliance with these values.*

## **6. What percent of endowment resources is invested through each of these investment managers?**

**Answer** = ‘Percentages can be calculated based on the values shown on the Investment Office website referenced above. The values are listed by investment fund, not by the fund’s investment manager, who might manage more than one fund to which MSU is invested. To be clear, these investment managers are not managing MSU investment decisions.’

**Analysis** = The allocation of the almost \$4.5 billion in the Common Investment Fund (estimated value as of December 2021) is approximately:

- 38.4% is Private Investment;
- 28.5% is invested in Global Equities;
- 16.7% is invested in Hedge Funds;
- 10.4% is invested in Fixed Income strategies;
- 2.8% is invested in Private Real Assets;
- 1.7% is invested in Private Real Estate;
- 1.3% is invested in Emerging Market Equities.

These proportions are typical for similarly sized public university investment pools, such as the [University of North Carolina](#) and the [University of Texas](#).

The response indicates that individual managers may oversee more than one investment, but it is not clear 1) how many actual managers are involved, or 2) in which categories of investment they function. It is reasonable to speculate that different investment managers may have different abilities in assessing the character of an investment as it relates to value guided investments.

**Recommendations** = The BOT policy and practice as it relates to the specific roles of investment managers needs to be revisited. Increasing the transparency of who the managers are, what portions of the portfolio they are mainly responsible for, and what their individual value-driven investment expertise is would be prudent.

## **7. One of the responsibilities of Investment Managers, according to the BOT Investment Policy (Sec X, Item 4), is to vote all proxies on behalf of MSU “and normally to support management on routine matters”. Does the BOT receive reports of these proxy votes, and how are they screened for alignment with the BOT’s policy to “exhibit social conscience”?**

**Answer** = ‘The Common Investment Fund’s investments in public equities is entirely through co-mingled funds where the BOT does not have voting rights and does not receive proxies. In cases where MSU would be given an option to vote proxies, they would be voted in accordance

with MSU's Investment Policy, in a manner most likely to preserve or enhance the value of the underlying investments.'

**Analysis** = The BOT did not respond to as to whether it receives reports of proxy votes. The BOT also did not respond as to how MSU's Investment Managers screen proxy votes to align with the BOT's policy to "exhibit social conscience".

The Board's response also illuminates that, since all the endowment's public assets are held in co-mingled funds, the Board does not have voting privileges, nor does it receive proxies. Therefore, the Board does not have oversight of the direction of these funds, nor does it have a way to screen whether the assets "preserve or enhance the value of the underlying investments". Private holdings do not have voting proxy procedure requirements. The Board's use of the term "value" in the aforementioned quote also illuminates that the Board is more concerned with the financial value of the endowment rather than the environmental and social benefits produced from its investments.

**Recommendations** =

- Create a "Guidelines for Proxy Voting" document to share with investment managers and consultants that aligns with the Board's policy of "exhibiting social conscience" in the administration of the university's investments and the goals stated in the university's Strategic and DEI Plans.
- Require that any proxy votes submitted on MSU's behalf or that proxy votes made by the BOT align with the "Guidelines for Proxy Voting".
- Require that a report on any proxy voting activities be discussed publicly at the next regularly scheduled BOT meeting.

**8. Has "[Exhibit A: Michigan State University's Common Investment Fund](#)" been updated since 2017?**

**Answer** = 'No'

**Recommendations** = Given that global events raise the volatile nature of investments, the Board of Trustees should revisit its Statement of Investment Objectives annually or at least bi-annually. The document has also historically been updated annually, bi-annually, or tri-annually. Currently, the document has not been updated in five years.

In preparing the fact-finding survey for the BOT and in analyzing the response received from the BOT, there remains confusion on exactly who are the advisors, who are the consultants, and who are the investment managers and the unified function each of these categories perform. Revisiting the investment policy with the intent of clarifying each of these functional roles could be helpful in creating a more accountable and transparent investment practice. We also encourage the board to seek the advice and guidance of the broader MSU community and articulate the statement of investment objectives.

## **9. Does the Board have any pending plans to exhibit greater transparency in its investment policies and practices going forward?**

**Answer** = ‘The board plans to continue directing the Investment Office practice of publishing on its website, a complete list of our investment funds and corresponding quarter-end value and continue to ensure that the full list of investments held at the end of the fiscal year is also published as part of the university’s Audited Financial Statements.’

**Analysis** = The response does not indicate any plans to exhibit greater transparency in its investment policies and practices. The *DEI Report & Plan* states, “To achieve national prominence, MSU must intentionally transform the core features of its institutional culture, elements of its organizational infrastructure and embed the values of diversity, equity, and inclusion within day-to-day practices” (p. 71). One of the features of MSU’s current institutional culture and organizational infrastructure is its lack of transparency in decision making and prioritization.

### **Recommendations =**

- Make Budget and Finance Committee meetings open to the public and meeting notes or recordings available to the public.
- Make Investment Advisory Subcommittee meetings open to the public and meeting notes or recordings available to the public.
- Publish the Board’s rationale behind Investment Consultant selection and the Board’s criteria for Investment Manager selection.
- Increase the transparency of the role Consultants such as Albourne perform in advising the Investment Managers, if any.
- Direct the Investment Office to publish a list of MSU’s Investment Managers on its website and to publish the percentage of the endowment that each of MSU’s Investment Managers oversee.
- Create an annual report describing how the BOT’s Investment Policy is being applied in the selection of Investment Consultants, Investment Managers, and individual holdings. This report should include the BOT’s process for hiring Investment Consultants and Managers and the rationale for its selections (e.g., This Investment Manager’s policies and practices align with MSU’s Strategic and DEI Plans, as well as the BOT’s stated mission in its investment practices).
- We also encourage the Board to seek the advice and guidance of the broader MSU community in articulating the statement of investment objectives.<sup>13</sup>

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<sup>13</sup> Note: The last question and answer from the survey has been removed from this report, as the nature of the question lent itself to a response only including contact information as to who to connect with if further questions or information were requested by the Working Group.

## **Conclusion: An Impetus for Change**

The overarching beliefs that have guided the Ad Hoc University Sustainable Investment Working Group to undertake this mission are relatively simple: We believe that as a public institution, it is our obligation to seek the highest degree of stewardship and accountability in managing our investments, and further believe that this necessitates a systematic approach to identifying MSU community values, and a collaborative approach to integrating those community values into the way that our Common Investment Fund (CIF) is managed and invested. To accomplish this task the working group initiated a fact-finding strategy to identify the current policies and practices that the MSU Board of Trustees, entity that is the “legal fiduciary” of MSU institution and as such is responsible for establishing “prudent and reasonable” investment goals and objectives for the endowment. The MSU BOT can establish guidelines and restrictions that must be followed by the hired financial professionals when creating the investment portfolio.

These guidelines can include minimum or maximum percentages of the portfolio being invested in a single sector, limits to different forms of investment, the overall level of social responsibility related to investments, and so forth. Incorporating the values articulated in the recently adopted MSU Strategic Plan and the University’s stated commitments to achieving a more diverse, equitable and inclusive community and monitoring the performance of our endowment in achieving these objectives are well within the reasonable practices of prudent investing. As we have discovered in our case studies, other institutions of higher education have embraced similar investment practices and are achieving positive financial returns while simultaneously advancing value guided social and environmental goals.

In conducting this fact-finding research, we found supportive partners and allies along the way, and we also experienced challenges in gathering timely information about our current policies and practices. For those who were encouraging and supportive, we hope the information gathered in this brief report and the recommendations suggested are helpful in advancing your efforts to bring about positive change in our investment practices. As for the nature of the resistance we experienced, we believe a more transparent, participatory process that engages a broad spectrum of the MSU community can help overcome whatever fears or hesitations they may feel. If we are to achieve the goal of our MSU Strategic Plan to “**become a national leader in increasing diversity, promoting inclusion, ensuring equity and eliminating disparities on our campus and beyond**”<sup>14</sup>, we must commit ourselves to adopting a more participatory process in managing our financial investments.

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<sup>14</sup> <https://strategicplan.msu.edu/strategic-plan/dei>

## **Description of the University Sustainable Investment Working Group**

The University Sustainable Working Group is an informal group of MSU students and faculty from various organizations and interest groups that are passionate about ensuring MSU's investment policies and practices prioritize the interests of its community, Michiganders, and larger society - for example, considering the current and future impacts of climate change on Michigan farmers and investing in sustainable agricultural engineering that will promote the protection of farmers' economic conditions and support food supply chains nationwide.

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