CFO's statement on University investment policies, November 17, 2005

The following describes the University of Michigan's policies regarding the investment of our endowment, along with some historical context and perspective.

These policies have been consistent and clear over a very long period of time. We have the benefit of excellent and thoughtful work by our Regents and by two faculty-led committees, one in 1978 and another in 1999, in fully developing the rationale behind these policies as well as articulating the set of conditions that must be met in the rare cases where an exception will be made to our normal investment policies.

There is one overarching principle related to our endowment and investment strategy: The University's governing board and officers have a fiduciary responsibility to protect our assets for the long term, so that we may leave to succeeding generations a University at least as strong as the one with which we have been entrusted. Therefore, the primary purpose of our endowment is to generate the greatest possible income, subject to an appropriate amount of risk, in support of the University's missions of teaching, research and service.

In order to accomplish this goal, it is important that we maintain an investment portfolio diversified across a full range of legally recognized entities. To do otherwise would be to increase our risk and decrease our investment returns – perhaps significantly so. For this reason, our longstanding policy is to shield the endowment from political pressures and to base our investment decisions solely on financial factors such as risk and return.

However, the University also has recognized that there may be unusual instances in which we should consider exceptions to this policy. The threshold for such an exception has intentionally been set extremely high, for the reasons noted above.

In 1978, the Board of Regents adopted a resolution including the following language: "If the Regents shall determine that a particular issue involves serious moral or ethical questions which are of concern to many members of the University community, an advisory committee consisting of members of the University Senate, students, administration and alumni will be appointed to gather information and formulate recommendations for the Regents' consideration." Such a committee would be ad hoc, appointed only after the Regents determine that a particular issue might require a deviation from the normal investment policy.

This resolution does not provide details about what rises to the level of "serious moral or ethical questions," or what will constitute "many members of the University community." However, other language in the faculty advisory committee report as well as subsequent work by the tobacco divestment committee help to clarify these important questions.

The 1978 faculty committee that reviewed possible divestment from apartheid South Africa wrote that the University has some responsibility to consider the ethical implications of its investments "in those cases in which an extraordinary social evil is apparent and a broad consensus develops within the University community concerning the moral shortcomings of a particular firm or type of investment." The committee stated its belief that "the University should not seek out controversy but rather should act only when a general consensus on a significant moral question has emerged within the University community." It went on to say that the University "must make strenuous efforts to avoid making commitments, as a corporate body, to political positions that may intimidate its members, produce an atmosphere of distrust and suspicion, or create obstacles to free inquiry."

The 1999 committee to investigate tobacco divestment was created by President Bollinger in accordance with the Regents resolution, after several years of sustained community concern about this issue. Although it is impossible to affix a number or a percentage to what will constitute broad community consensus on a given issue, it is worth noting that the Faculty Senate Assembly, Michigan Student Assembly and a number of other University leadership groups passed formal resolutions or in other ways expressed the view that the University's ownership of tobacco stocks was of widespread concern. The resolutions of the Senate Assembly and MSA were nearly unanimous. In its report, the committee noted that the "overwhelming majority of the responses" to the committee and to the University administration supported divestment.

Even so, according to the committee, the decision to divest from tobacco companies proved to be "a complex and difficult challenge." The committee wrote that "one service this report can perform … would be to provide everyone in the University community with a sense of the complexity of the issues at stake."

In his charge to the committee, the University's chief financial officer asked it to determine whether the holding of tobacco securities "is antithetical to the core missions of the University of Michigan and, therefore, merit divestiture." The committee also undertook to determine what features of tobacco products and what activities of the tobacco industry warranted singling out tobacco securities for potential divestment.

According to the committee, in order to justify divestment, "the magnitude of both the misbehavior in question and the harm caused by that misbehavior must be so extreme that the company or industry would be a clear outlier in the corporate community."

In recommending divestment, the committee argued that tobacco companies make a product that is unique in its capacity to cause death in its intended use, with more than 400,000 deaths in the United States and more than 4 million deaths worldwide each year as a result of tobacco use. The committee singled out the "dishonest and reprehensible" behavior of the tobacco industry in targeting its products to young people, artificially enhancing the addictiveness of tobacco products through the addition of nicotine, denying the health effects of tobacco and suppressing scientific research. It concluded that the health effects of tobacco and the actions of the tobacco industry "are especially antithetical to the missions of this University, given our commitment to teaching, research and service in the fields of health care and public health."

These two instances – reflecting concerns about apartheid in South Africa and the deadly effects of tobacco – are the only two instances in the University's history when exceptions have been made to our investment policy.

In the future, such exceptions will continue to be rare. We will ask the Regents to appoint an ad hoc committee to investigate the ethical and moral implications of our investments only when the following conditions have been met:

1) The concern to be explored must express the broadly and consistently held position of the campus community over time;
2) There must be reason to believe that the behavior or action in question may be antithetical to the core mission and values of the University.
3) There must be reason to believe that the organization, industry or entity to be singled out may be uniquely responsible for the problems identified.

I encourage any community members who are interested in our investment policies to read the advisory committee reports on South African and tobacco divestment. Links to these documents are below, along with other useful materials related to this topic.