



STANFORD UNIVERSITY'S STATEMENT ON INVESTMENT RESPONSIBILITY

Adopted 1971, as amended through June 2013

Commitment

Preamble

- 1.1 The primary fiduciary responsibility of Stanford University Trustees in investing and managing the University's endowment assets is to maximize the financial return on those assets, taking into account the amount of risk appropriate for Stanford's investment policy. However, when the Trustees adjudge that corporate policies or practices cause substantial social injury¹, they, as responsible and ethical investors, shall give independent weight to this factor in their investment responsibility policies and proxy voting practices related to endowment investments.
- 1.2 The authority to take ethical factors into account, when setting investment responsibility policies and proxy voting practices to address allegations of "substantial social injury" by corporations in which the endowment has invested or is considering an investment, derives primarily from the stewardship responsibilities which attend the ownership of endowment assets. The policies, guidelines, and procedures in this Statement recognize that there is no practical way for the University to avoid having an effect on the outcome of issues involving corporations in which it has invested, and that, consequently, the effect should be as thoughtful and considered as possible.
- 1.3 However, decisions regarding investment responsibility frequently are controversial, and the Trustees recognize that they may not speak for the University on issues of public policy, except those that directly impinge upon Stanford as an educational institution. Therefore, all actions taken pursuant to these policies, guidelines, and procedures should be understood as judgments by the Trustees made in discharging their duties as an institutional investor in corporations, and such an action should not be interpreted to represent the view of all members - or of any particular member - of the University.

Process

Policy Guidelines

- 2.1 Selection and Retention of Endowment Assets
 - a) Maximum economic return shall be the primary criterion for the selection of the University's endowment investments. Maximum economic return shall also be the primary criterion for the retention of the University's endowment assets except in the cases covered by paragraph 2.3. In both cases, when assessing the expected return on the securities of a company, the investment manager or advisor shall take into consideration any substantial social injury caused by company activities which in his or her opinion is likely to have a negative impact on the value of the investment.
 - b) In no event will an endowment asset be selected or retained for the primary purpose of thereby encouraging or expressing approval of a company's activities, or alternatively, for the primary purpose of placing the University in a position to contest a company's activities.

2.2 Exercise of Shareholder Rights

- a) Social Issue Policies and Proxy Voting Guidelines: From time to time Trustees will review, update and/or develop proxy voting guidelines that address issues of substantial social injury by companies in which the University invests.
- b) Voting: On any shareholder resolution involving social issues, the Trustees shall: (1) normally vote according to existing University Investment Responsibility Proxy Voting Guidelines, (2) vote to “abstain” when no Proxy Voting Guidelines exist, or (3) “not vote” in cases where SCIR has determined that “not voting” on a resolution is in the best interest of the University.
- c) Representations: When the Trustees conclude that the company’s activities cause substantial social injury, 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.

2.3 Divestment

Where the Trustees conclude that a company’s activities or policies cause substantial social injury, and the Trustees conclude that:

- a) a desired change in the company’s activities would have a direct and material effect in alleviating such injury,
- b) the Trustees have exhausted their practicable shareholder rights in seeking to modify the company’s activities to eliminate or reduce the substantial social injury thereby caused,
- c) the company has been afforded the maximum reasonable opportunity to alter its activities,
- d) no alleviation of the substantial social injury by the company is likely within a reasonable time; the Trustees will consider the alternative of not continuing to exercise their shareholder rights under the foregoing paragraphs, and may, when such an action is consistent with their fiduciary obligations, instead sell the securities in question within a reasonable period of time.

2.4 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 Trustee need not take such action.

Structure

3.1 The Advisory Panel on Investment Responsibility and Licensing

An Advisory Panel on Investment Responsibility and Licensing (APIRL) shall advise University trustees and officers and make recommendations to the Trustees’ Special Committee on Investment Responsibility (SCIR) concerning investment responsibility matters and the President (or his designee) on Business Affairs/ Management Stanford Logo Licensing issues and actions, and/or other related issues as assigned by the President.

3.2 Specific Duties

The APIRL has been designated as the University body responsible for implementation of the policy guidelines on investment responsibility. The Panel shall be advisory to the SCIR and the President, with the following functions:

1. Consider proposals from the University community regarding specific investment responsibility concerns, first determining whether or not there is an allegation of substantial social injury;
2. Monitor trends and activities in investment responsibility that have an impact on educational

institutional investors;

3. Conduct research, update company files, and provide analyses when appropriate;
4. Make recommendations to the SCIR on how to vote proxies and on any new issues which may warrant attention;
5. Respond to specific requests from the SCIR or the President.

3.3 APIRL Membership

- a) There is hereby established an Advisory Panel on Investment Responsibility and Licensing to be composed of twelve voting members including: four members of the Academic Council nominated by the Faculty Senate Committee on Committees; four students (two undergraduates, two graduates) nominated by the Student Senate Committee on Nominations; two alumni representatives appointed by the President in consultation with appropriate University representatives; two staff members appointed by the President. The Chief Executive Officer of the Stanford Management Company (or his/her designee) shall serve as an ex-officio member. The CEO may vote if there is a tie.
- b) Members shall be appointed for at least two years and may be reappointed. Members shall serve until their successors take office. In the event of a vacancy caused by death, disability, or resignation of a member, the President of the University shall appoint a replacement, who shall serve until the expiration of such member's term and until a successor takes office.
- c) The APIRL Chair shall be appointed by the President of the University.

3.4 Organization

- a) The APIRL shall meet on call of the Chair and no less than twice during the academic year. At the Chair's discretion, the APIRL may also conduct business via conference call.
- b) The Chair is responsible for setting agendas. The Chair shall take as an agenda item any matter referred by the Board of Trustees, the President, or the Chief Executive Officer of the Stanford Management Company. The Chair shall also take as an agenda item any matter submitted by two or more members of the APIRL. In addition, the APIRL will consider written proposals from any member or group of the Stanford community for possible inclusion on the agenda. The Chief Executive Officer of the Stanford Management Company shall, whenever practicable, give reasonable notice to the APIRL of any matter pertaining to the University's endowment securities which could be within the purview of the APIRL.
- c) The APIRL may ask individuals, whether or not connected with the University, to attend its meetings as consultants or otherwise provide advice and information.
- d) The Stanford Management Company shall be responsible for providing staff and secretarial assistance to the APIRL.
- e) To assist in its review of social responsibility proxy issues, the APIRL will have access to reasonably available data compiled by or on behalf of the University on companies currently held as pooled endowment securities.
- f) The APIRL may establish committees of its members to serve at the pleasure of the APIRL.
- g) The APIRL may establish rules of procedure, subject to the provisions of this statement.

3.5 Operations

- a) Within the Guidelines established under Section 2, the APIRL shall examine issues of investment responsibility involving the University's endowment securities and make appropriate recommendations for action by the Trustees. Such recommendations shall take into consideration the following factors: (1) the facts and information the APIRL has gathered in its

study of the issues; (2) the opinions expressed within the Stanford community regarding the issues; and (3) the legal and financial impact of the recommended action.

- b) If the APIRL determines that a substantial issue arises within the Guidelines established under Section 2, the APIRL may, at its discretion, sponsor or encourage the convening of occasional local public meetings or forums to assess the views of members of the Stanford community concerning such an issue.
- c) All recommendations by the APIRL to the Trustees shall be the result of the following two-step process. (1) When the APIRL receives from any member of the University community, including a member of the APIRL, a written request for action under this Statement, the APIRL shall first determine whether the request, on its face and assuming its factual accuracy, appears to constitute an allegation of substantial social injury against a firm in which Stanford has a direct investment. Such a determination must be made before an allegation may be considered further, and the determination shall be made only by an affirmative majority vote, a quorum being present. If the APIRL fails to make such a determination, it shall advise the individual making the request that no further steps will be taken unless persuasive additional evidence or arguments are presented to the APIRL. (2) If the APIRL by this determination agrees to consider the allegation further, it shall investigate and analyze the allegation in whatever manner it deems appropriate and may then make a recommendation to the Trustees, provided that the recommendation is first approved by the majority of the APIRL's members present. Six out of twelve voting members constitute a quorum. Recommendations may call for voting Stanford's shares in shareholder resolutions, making representation to management, divestment of securities, or other action as the APIRL deems appropriate.
- d) The APIRL shall make its recommendation in writing to the Trustees and the President. The recommendation shall be accompanied by factual findings and an analysis of the question involved. Voting members of the APIRL who hold dissenting or divergent views may submit them in writing with the APIRL's recommendation. The recommendation, together with accompanying materials, may, at the discretion of the APIRL, be made available for public distribution.
- e) Where the APIRL indicates a desire to deliberate on a proxy or divestment issue, the Trustees will, where practicable, await a timely recommendation from the APIRL before taking action.
- f) The Trustees will make decisions on all recommendations for action under this policy. Should the Trustees decide not to accept a recommendation of the APIRL; the APIRL will be informed of the reasons for the Trustees' actions.

Other Matters

- 4.1 Nothing in this Statement shall be deemed to delegate the Trustees' investment responsibilities, or any part of them, to the APIRL or any other person or body.
- 4.2 The Trustees may amend this Statement from time to time.
- 4.3 The APIRL may, from time to time, submit recommendations to the Trustees for amendments to this Statement.

Amendments

Stanford's Statement on Investment Responsibility Adoption, Definitions, and Amendments to the Structure and Process

1. **April 13, 1971** – the Trustees adopt Stanford's first Statement on Investment Responsibility, a "Living Document," committing University Trustees, as ethical endowment fiduciaries, to oversee the financial return of investment while addressing allegations of "substantial social injury" by potential endowment companies.
2. **December 27, 1977** – the Trustees adopt the Preamble to Stanford's Statement on Investment Responsibility outlining their commitment and more fully defining terms used:

Fiduciary Responsibility: The primary fiduciary duty of the Trustees in investing and managing the endowment is to maximize return on those resources... However, it is in conflict with the spirit of the Founding Grant and the duty of a responsible investor... to consider the social, political, and economic impact of investments....

Investment Pool: An investment pool is a commingled group of investment funds and assets. The vast majority of the University's endowment assets are retained in commingled pools.

Substantial Social Injury: Corporate activity that creates a potential for social injury to occur shall not itself be construed as socially injurious. Similarly, for the purposes of these guidelines, social injury shall only in unusual circumstances include the act of doing business with other companies which are themselves engaged in socially injurious activities.

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

3. **September 15, 1981** - the Trustees approve a one-year moratorium on normal CIR activities to comprehensively review CIR's goals, procedures, and mechanisms for ethical investment by the University.
4. **September 15, 1982** - the Trustees approve CIR recommended changes to Stanford's Investment Responsibility goals, procedures, and mechanisms by limiting the scope of the responsibilities to consider only shareholder social issues which allege "substantial social injury."
5. **June 14, 1985** - the Trustees approve an amendment to Stanford's Statement on Investment Responsibility that would include addressing and weighing allegations of "substantial social injury" by portfolio companies; originally called the Committee on Investment Responsibility (CIR), the CIR was renamed the Advisory Panel on Investment Responsibility - APIR; due to the very large work load placed on the volunteer Panel members, the Trustees approved the APIR recommendation to withdraw consideration of corporate governance issues from the Panel's responsibilities. Since that time, changes to corporate governance best practices have been monitored and evaluated by the Manager of Investment Responsibility in consultation with the Chairman of the SCIR.
6. **June 1987** - the Trustees approve adoption of Stanford's Selective Divestment Policy.
7. **October 10, 1989** - Statement Preamble Revised, Substantial Social Injury Definition Updated, and CIR changed to APIR. The Trustees approved an amendment to Stanford's Statement on Investment Responsibility that provide guidance in defining "substantial social injury" as proximate corporate direct or indirect actions that cause injury to employees, consumers, and/or other individuals, or groups and included violation, subversion, or frustrating 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; APIR - The CIR was renamed the Advisory Panel on Investment Responsibility (APIR).
8. **June 7, 2005** - the Trustees approve changes to the APIR Process to enhance communication with Stanford Community Members. Changes included: (1) monthly meetings of the full Panel, (2) an annual Stanford Community Town Hall Meeting on Investment Responsibility, (3) an annual Joint Meeting of the SCIR and APIR, (4) an APIR Website to include (5) a "Request for Review" form, (6) access to all historic Investment

Responsibility documents, (7) including Annual APiRL Reports, (8) Stanford's Statement on Investment Responsibility, (9) the SCiR and APiRL Charges, (10) the names and contact information of the APiRL Representatives, (11) access to 3rd Party Research, and (12) funding for Investment Responsibility Research Interns to provide support to APiRL.

9. **July 1, 2005** - the President adds Stanford Logo Licensing, a Business Affairs/Management issue area, to the responsibilities of the Advisory Panel on Investment Responsibility. The Panel is renamed the Advisory Panel on Investment Responsibility and Licensing (APiRL) and is tasked with developing a University Labor Code of Conduct for Stanford Logo Licensed Apparel Manufacturers.
10. **June 11, 2009** - the Trustees approve Investment Responsibility Core Social Issue revised and/or new Policy Statements and Proxy Voting Guidelines on Diversity & Non-discrimination (addition of non-discrimination based on Sexual Orientation); Environmental Sustainability (broadening of Environmental Sustainability Policies and Standards); Human Rights (updates and revisions made to Stanford's basic Human Rights – Sullivan - Principles, now cover broader Human Rights principles covering country selection); and a Labor Policy Statement and Proxy Voting Guideline based on UN Global Compact Principles.
11. **June 10, 2010** - the Trustees approve one new Human Rights Proxy Voting Guideline on Conflict Minerals (in the Democratic Republic of Congo).
12. **June 9, 2011** - the Trustees approve revisions to Stanford's Core Social Issue Policy Statements to include application of corporate best practices to company subsidiaries, agents, contractors, subcontractors, suppliers, vendors, licensees, and/or joint venture partners. Additionally, the Board approved amendments to two Proxy Voting Guidelines adding "Gender Expression" to Equal Employment Opportunity Policies Prohibiting Discrimination, and making minor edits to Stanford's Human Rights Country Selection Guideline while also including corporate affiliated subsidiaries (as noted in the Policy Statements). Finally, the Board approved two new Proxy Voting Guidelines (1) Expand Board Director Nominees to include qualified women and minorities for consideration as new Board Directors, and (2) Implement corporate Labor Policies that consider "Adult and Child Worker Health, Safety & Security" for agricultural workers, particularly in the coco, cotton, and tobacco fields.
13. **June 13, 2012** - the Trustees approve one new Environmental Sustainability Proxy Voting Guideline on Energy Efficiency. Additionally, the Board approves amendments to the Human Rights statement and the Diversity and Labor, Equal Employment Opportunity Policies Prohibiting Discrimination proxy voting guideline.
14. **June 13, 2013** - the Trustees approve modifying the language in the Statement to reflect updated investment strategy.