

## How the Investments Office Implements Yale's Ethical Investment Policies

Yale's Endowment holds a wide variety of investments, generally managed by external parties. Various legal structures and a range of asset types require the Investments Office to carry out Yale's ethical investment policies in different ways. Distinct approaches are required for marketable (publicly traded) securities and privately held investments.

### Publicly Traded Securities

Yale holds some publicly traded securities through managed accounts or funds where the University is the sole investor (i.e., separate accounts). Sometimes, Yale is one investor among many in a commingled fund. It is most straightforward to carry out Yale's policies on socially responsible investing when the University holds shares of publicly traded companies in separate accounts. In these circumstances, the manager can easily accommodate Yale's request to divest or avoid acquiring particular securities and Yale has the right to direct proxy voting with respect to social and ethical issues when publicly traded securities are held in Yale's name.

Yale sometimes invests in commingled funds, which pool monies from multiple investors. This makes it more difficult for a manager to accommodate Yale's request to divest specific securities, but it is not impossible. In one instance that required divestment related to corporate activities in Sudan, Yale was able to convert its interest from a commingled fund to a separate account and the manager divested the relevant security in Yale's account.

### Index Funds

Yale uses index funds for daily rebalancing of publicly traded securities in the Endowment portfolio. Exchange Traded Funds (ETFs) provide broad-based, low-cost exposure to markets represented in the Endowment's asset classes. ETFs are bought or sold to rebalance the portfolio and meet asset allocation targets set in the University's investment policy. At any given time, ETFs comprise only a small percentage of Endowment assets. ETFs are characterized as a passive investment, because Yale does not actively select the underlying securities, has no shareholder rights in companies held by the ETF, and has no direct relationship with the ETF sponsor. The University does not consider look-through exposure to companies in these funds when implementing ethical investment policies.

### Privately Held Investments

In 2002, the University clarified that its ethical investment policies apply to both public and private investments. The Yale Corporation understood that implementation of an ethical investment policy with private investments would require a different approach than that applied to publicly traded securities. For one thing, shareholder resolution activity, a key element of Yale's ethical investment policy in public companies, is not available to private investors. In addition, the vast majority of Yale's investments in privately held securities are made through commingled private equity partnerships, which are structured in ways that make it difficult to divest from a specific company.

However, even with these limitations, Yale will work with fund managers to implement its ethical investment policies. For example, in addition to attempting moral suasion, Yale might be able to avoid certain investments through “excuse” provisions, which are part of some private equity funds, or work with the manager to liquidate the relevant position. As a last resort, the University could disassociate from the investment manager by selling the fund interest to a secondary buyer.