

UNIVERSITY OF SOUTHERN CALIFORNIA

Minutes of the Regular Meeting of the Advisory Committee on Investment Responsibility

July 19, 2024

The seventh meeting of the Advisory Committee on Investment Responsibility (ACIR) of the University of Southern California was held by video conference at 9:00 a.m. on July 19, 2024.

The following people participated in the meeting:

Committee Members Participating:

Stacy Giwa, Chair

Marlon Boarnet, Faculty

Kathleen Burns Campos, Alumni

Monica Dean, Staff

Howard Kern, Alumni

Richard Sloan, Faculty

Undergraduate Student Member

Graduate Student Member

University Administrators Participating:

Amy Diamond, Chief Investment Officer

Hannah Findling, Sustainability Program Administrator

Brian Johnson, Managing Director of the Investment Office

ACIR Investment Sustainability Intern

Teresa Whitehill, Investment Manager

Call to Order:

Chair Stacy Giwa called the meeting to order at 9:02 a.m. by reviewing the agenda. All participants confirmed their presence via video or teleconference, ensuring clear communication throughout the meeting.

New Member Introductions:

The committee welcomed Monica Dean, the Managing Director at the Lloyd Greif Center for Entrepreneurial Studies at USC Marshall, as a new staff representative on the ACIR. Stacy Giwa introduced Monica, highlighting her extensive background in entrepreneurial studies and her strategic role at the Lloyd Greif Center.

Overview of Proposal Requests:

The committee discussed a proposal received on May 8, 2024, recommending that USC disinvest from direct investments in companies involved in several activities. The proposal outlined specific criteria for disinvestment, focusing on companies that:

1. Provide products or services that contribute to the maintenance of the Israeli military occupation of Gaza and the West Bank.
2. Provide products or services for the maintenance and expansion of Israeli settlements in the occupied Palestinian territories.
3. Establish facilities or operations in Israeli settlements in the occupied Palestinian territories.
4. Provide products or services that contribute to the maintenance and construction of the Separation Wall.
5. Provide products or services that contribute to violent acts against either Israeli or Palestinian civilians.
6. Manufacture controversial weapons, serve as military contractors, or are involved in international law violations. Specific examples mentioned in the proposal include Boeing and General Dynamics. The proposal provides further specific criteria for disinvestment as follows:
 - a. “Does the company maintain contracts selling weapons (e.g.: guns, explosives, white phosphorus) or vehicles (e.g.: tanks) to the Israeli Defense Forces? – Violates A, E”
 - b. “Does the company sell reconnaissance tools used by Israeli Defense Forces (e.g.: drones or surveillance software)? – Violates A, B”
 - c. “Does the company sell weapons or vehicles used by Israeli Defense Forces police? – Violates E”

- d. “Does the company sell demolition equipment (i.e., bulldozers) used in the illegal destruction of land and homes in East Jerusalem, the West Bank, and/or the Golan Heights? – Violates A, B, E”
- e. “Does the company sell construction equipment used in the illegal construction of settlements in East Jerusalem, the West Bank, and/or the Golan Heights? – Violates B, C”
- f. “Does the company have operating offices or production plants in illegally settled areas of East Jerusalem, the West Bank, and/or the Golan Heights? – Violates B, C”
- g. “Does the company sell products (building materials) or services (construction companies) that contribute to the maintenance and construction of the Separation Wall? – Violates D”
- h. “Does the company divert essential resources (e.g.: water) from the occupied territories and contribute to the systematic deprivation of Palestinians in these territories? – Violates E”

It should be noted that the full proposal was provided to the committee for review, and the agenda and minutes represent a high-level summary of the specific categories outlined.

Presentation of Peer Analysis & Screening Tools Review:

ACIR Investment Sustainability Intern presented a comparative analysis of divestment efforts at other universities as of the time of the meeting and based on publicly available material. The analysis reviewed 36 universities and categorized their actions into four groups: significant student activism (27 universities), rejected divestment (12 universities), engaging in dialogue (34 universities), and considering divestment (11 universities).

The ACIR Investment Sustainability Intern further detailed the screening tools recommended in the proposal for ethical investments, including the American Friends Service Committee (AFSC) Investigate tool, As You Sow’s WeaponsFreeFunds tool, Who Profits, and UN Office of the High Commissioner for Human Rights “HRC Resolution 31/36 Database”. The AFSC Investigate Tool claims to identify companies involved in severe human rights violations, military occupations, and state violence and screens out over 200 companies, including Boeing, Airbus SE, and Chevron. As You Sow’s WeaponsFreeFunds Tool claims to screen mutual funds and ETFs for exposure to military weapon manufacturers and controversial weapons, screening out thousands of funds across various categories, including 1,924 U.S. companies. Other tools mentioned in the proposal were the Who Profits tool, which aims to target commercial involvement in the Israeli occupation, and the UN OHCHR Resolution 31/36 Database, which lists businesses contributing to Israeli settlements.

Investment Office Update:

The Investment Office provided an update on how the endowment is managed and discussed the feasibility of implementing the proposal's recommendations from an operational perspective. The proposal refers to screening tools for investments in public equities via direct investments and mutual funds/ETFs. However, as noted by Amy Diamond, USC's public equities investments are primarily through institutional commingled funds that are not subject to these screening tools. This limits the feasibility of implementing the requested divestment recommendations for these types of funds. She highlighted that a small portion of the endowment is invested in market-tracking ETFs, limiting the ability to exclude specific companies.

A committee member asked about the practicality of having the 150+ active external investment managers use specific screening tools and scan through the underlying companies. The Investment Office highlighted the focus on selecting fund managers with strong performance and solid reputations. The discussion also touched on the ethical considerations of investment managers and the role of the Investment Office in ensuring alignment with USC's investment principles.

A committee member raised a question about disclosure feasibility with the proposal's requests, to which the Investment Office noted that category breakdowns do not always align with these requests.

Discussion of Framework and Parameters:

The committee then discussed the framework and parameters for evaluating the proposal. They reviewed potential actions: endorsing the proposal, endorsing it with modifications, deferring for further information, or declining with rationale. Key points from the ACIR Charter and Investment Stewardship Policy were emphasized, including the endowment's long-term objectives, the importance of confidentiality, and the role of Environmental, Social, and Governance (ESG) factors in safeguarding the endowment's interests.

Representatives from the Investment Office Excused From Meeting - Transition TO ACIR Member Discussion

Considerations and Decision-Making Factors and Open Discussion:

The committee engaged in an in-depth discussion on the factors to consider when weighing the proposal. These included balancing the endowment's purpose in supporting USC's educational mission, the diversity of opinions within the USC community, and the operational feasibility of implementing the proposal. The potential conflict between maintaining a neutral space for protest and political activity and taking an institutional position was also discussed.

The committee discussed the purpose of the endowment and ACIR's connection, the concern the proposal could be viewed at its core as a request for the university to take a side in an active conflict where our community has a diversity of opinion, the focus on fiduciary duties, the need for the university to be a place where the institution maintains focus on its mission and providing a space where our community members can robustly debate issues, and the need for cautious deliberation. During the discussion, it was noted that the investment office addresses feasibility concerns while ACIR ensures that the endowment aligns with ESG principles and remains true to its purpose: supporting the university mission in perpetuity.

Next Steps:

The committee thoroughly reviewed the proposal. To ensure accuracy and thorough review, the committee agreed that minutes would be circulated to all members for pre-publication feedback before they are officially published. This practice will help ensure transparency and accountability in documenting ACIR discussions.

The meeting concluded with the determination that additional discussion is needed before concluding, and an additional ACIR meeting will be scheduled in the coming weeks. The committee agreed to continue deliberating and with the next steps in the decision-making process. Stacy Giwa emphasized the importance of ongoing dialogue

Adjournment

The meeting was adjourned at 10:31 a.m.

Dated: July 19, 2024