

Northwestern University

Board of Trustees

Statement on Investment Responsibility

Northwestern University Mission Statement

Northwestern is committed to excellent teaching, innovative research, and the personal and intellectual growth of its students in a diverse academic community.

Background

Northwestern University was established as an educational institution in 1851 and, since inception, the Board of Trustees has been charged with managing the University's assets in such manner as they deem most beneficial to the University. The Endowment was established to provide a source of funds in perpetuity to support the University's mission. Through its investments, the Endowment generates a significant stream of income that funds current expenses for nearly every facet of University life, including scholarships, faculty, research, and facilities across all global campuses. In addition, through appreciation of investments and generous gifts of donors, the Endowment's contribution to the University's mission continues to grow through funding for increased financial aid, new research initiatives, and the addition of talented faculty, all of which enhance the University's stature as a world-class educational institution for current and future generations.

The Board of Trustees, as fiduciary stewards of the University's Endowment, are legally required "to manage and invest the Endowment in good faith and with the care an ordinarily prudent person in a like position would exercise in like circumstances." Commonly known as the "prudent investor" rule, this requires that in carrying out their stewardship of the University's assets, the Trustees must consider, to the extent relevant, general economic conditions, the role each investment plays within the overall investment portfolio, the expected total return from investment income and the appreciation of investments, and the needs of the institution for current distributions and the preservation of capital. In managing the Endowment, the Trustees are also legally required to consider the charitable purposes of the University and the purpose of the Endowment. Accordingly, the primary responsibility of the Board of Trustees with respect to the University's Endowment is to maximize long-term risk-adjusted returns to provide financial support to the University.

The Trustees also understand that some Endowment investments may raise ethical, political, and social concerns. As such, the Trustees have adopted this statement in an effort to reiterate their long-standing commitment to responsible investment by the University and to provide guidance on how such considerations should be incorporated into investment decisions for the Endowment.

Approach

The University plays a critical role in fostering debate and discussion on issues of societal significance and human welfare. The University, as an impartial institution, does not generally take positions on specific political or social issues. Similarly, the Trustees do not believe the Endowment should be used as a tool to further specific political or social positions or agendas. The Trustees believe the principal role of the Endowment is to provide the financial support the University requires to carry out its mission now and in the future.

The Trustees recognize that incorporating ethical considerations into investment decision-making is beneficial to preserving the long-term value of the Endowment. The Trustees also believe it is important to consider fundamental shifts in societal values and how such shifts may impact the ongoing attractiveness of an investment. Therefore, the Trustees anticipate that over time, the Endowment's investment portfolio will reasonably reflect these changes.

As a public testament to its commitment to responsible investing, in 2016, Northwestern became a signatory to the United Nations-supported Principles for Responsible Investment, which promotes incorporating environmental, social and governance (ESG) issues into the investment process. In addition, the President and the Chief Investment Officer of the University, with the endorsement of the Investment Committee of the Board of Trustees, established the Advisory Committee on Investment Responsibility (ACIR) in 2016 to serve as a conduit for the Northwestern community to present specific investment-related concerns to the Investment Committee for consideration.

The Endowment generally does not invest directly in stocks, bonds, and similar assets. Rather, the Investment Office selects qualified third-party investment managers who then make, hold, and subsequently sell specific investments on behalf of the Endowment. Since most of the University's investments are managed by third-party investment managers who are responsible for selecting specific investments, the University's impact as an active shareholder is limited. However, in choosing investment managers, the Investment Office carefully evaluates their integrity, character, and principles and the extent to which an investment manager considers ESG factors in making and holding investments. The Trustees believe the latter are important elements in the Endowment's manager selection process because these factors can lead to investments in companies with more sustainable business models and to better risk-adjusted returns in the long run.

The Trustees believe that in most cases, divestment from the University's Endowment is an ineffective means of exercising investment responsibility, especially in comparison to the value of encouraging the University community to engage in education, research, and debate. However, the Trustees recognize that, on very rare occasions, a continued investment may be so morally reprehensible, such as investments that directly support slavery, apartheid, or genocide, that such investment would necessitate the University's divestment. These instances will be reviewed on a case-by-case basis as the Trustees are mindful that decisions about an individual asset must not be made in isolation. Trustees

will consider the extent to which the proposed divestment would generate tangible and positive change with respect to the issue at hand, the ease with which an investment may be unwound, as well as the financial impact the proposed divestment would have on the Endowment and its financial support of the University. Any proposed divestment would require broad and deep support across the myriad of University constituents. This requirement ensures that the University fosters a community in which ideas may be freely and openly debated, which is critical to the University's mission.

In conclusion, the Trustees believe the most appropriate forum for addressing broad social, ethical, and political issues within the University arena is through research, education, and thoughtful debate in an atmosphere of academic freedom. Furthermore, the Trustees believe the Endowment can be most effective and have the most powerful impact through its on-going financial support of the University, and such support can only be sustained with a focus on maximizing long-term returns. In general, in considering investment policy matters, the Trustees will be guided by their fiduciary duty to steward the University's Endowment for current and future generations in a manner that is consistent with the University's commitment to excellent teaching, innovative research, and the personal and intellectual growth of its students in a diverse academic community.