Executive Summary

Over six months, the Endowment Taskforce researched the UCR endowment and its historical financial performance; the UCR Foundation (UCRF) Board's investment policy and the Board's relationship with the UC Investments Office (UCIO); UCIO's investment policy and past divestment decisions by the UC Board of Regents; the evolution of the San Francisco State University Foundation Board's investment policy; and the historical financial performance of weapons-free funds.

The taskforce found that information about the UCR endowment is not as readily available to stakeholders[1] as is endowment information at other universities. The taskforce also found that weapons-free funds can potentially achieve returns comparable to those of the UC General Endowment Pool (GEP); but we were unable to evaluate the risk of a portfolio of weapons-free funds.

Based on our research and findings, the taskforce makes two recommendations:

1. The UCRF Board should clearly communicate its endowment holdings and investment policies, including Environmental, Social, and Governance (ESG) guardrails, to campus stakeholders.
2. The UCRF Board should evaluate ESG-focused investment options, including a weapons screen, as a component of the UCRF endowment.

Background and Charge

This taskforce was created as part of the agreement to end the student-led encampment on the UCR campus in Spring 2024. The encampment had been erected by student leaders supporting Palestine in part to call on the university to divest from activities that were viewed as complicit in the violence. One of the protesters' main concerns was the management of the UCR Foundation (UCRF) endowment.

The taskforce was charged with exploring investment strategies for the UCRF endowment that would avoid investing in companies involved in arms manufacturing and delivery and be financially sound for the university. The taskforce included faculty, staff, and students representing multiple colleges and schools and expressing diverse viewpoints.

[1] The taskforce uses a broad definition of "stakeholders" which includes students, faculty, staff, administrators, alumni, the Board of Trustees, donors, community members, foundations, public agencies, private partners, and other individuals and groups with vested interests in the university and its mission.

Process

The taskforce met monthly during Fall 2024 and Winter 2025 and conducted research in between these meetings. The full taskforce met with a member of the San Francisco State University Foundation Board. Individual taskforce members met with a UCRF Board member and staff member, a UC Berkeley Foundation staff member, a UC Investments Office (UCIO) staff member, and a Praxis Mutual Fund director. The taskforce also sent written questions to the UCIO but did not receive answers.

Taskforce members unanimously agreed that our background work and discussions would remain confidential. All members upheld this agreement and extended a high degree of collegiality to each other.

Findings

UCR Endowment

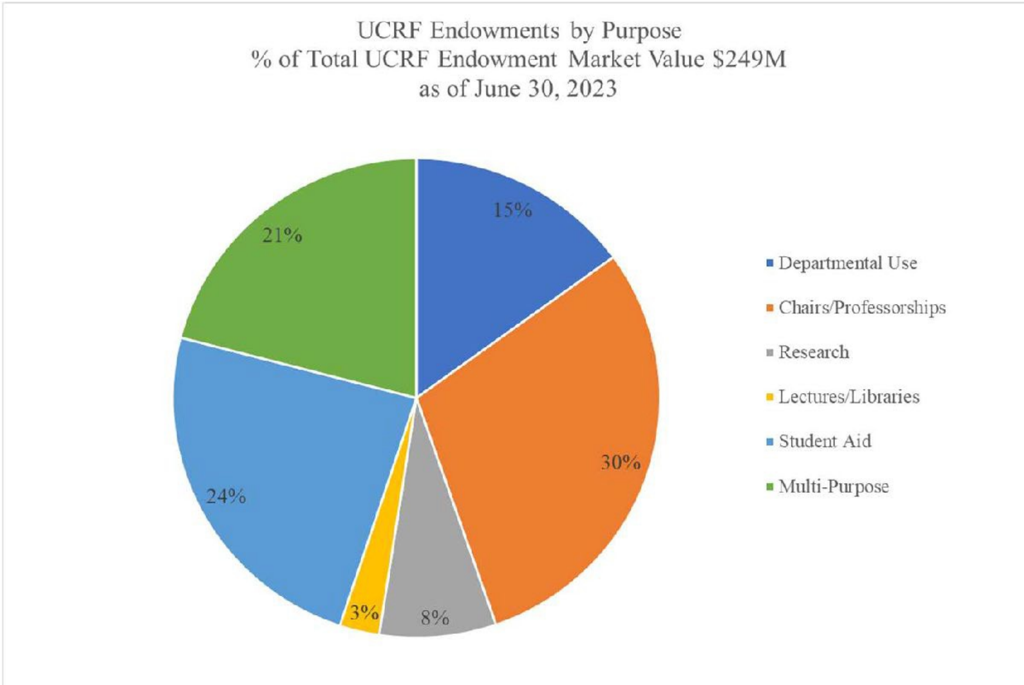
Shortly before we began meeting, and also as part of the agreement to end the student-led encampment, the campus created a website with details about the UCR endowment. The data on this website reflects the state of the UCR endowment as of March 2024. Although this is no longer the most current information about the UCR endowment, it is the most detailed information we have, so we use it here for context.

According to this website: “As of March 2024, the total size of the UCR endowment was approximately $797.7 million. The endowment has two components: the UC Board of Regents has fiduciary responsibility for $520 million, while the UCR Foundation Board has fiduciary responsibility for $277.7 million. All of the UC Regents component is invested in the General Endowment Pool (GEP) within the UC Investments portfolio, as is more than 99% of the UCR Foundation component. The remaining endowment controlled by the UCR Foundation, approximately $2.7 million, is invested in cash assets and in private equity that includes a venture capital fund (the Highlander Venture Fund) to support UCR-based start-ups and a small investment in Park Street Capital, and cash assets.”

UCIO manages the UC Investments portfolio and follows Regental policy in doing so.

The roughly $278 million controlled by the UCRF board is the subject of the Spring 2024 agreement and our charge. We refer to this as the “UCRF endowment.”

Recently, the annual payout from the UCRF endowment has been around $12 million, which has paid for approximately 1.6% of UCR’s total core expenses. An analysis from 2023 shows the proportional distribution of the payout:



Source: UCR Advancement internal communication.

Also from the campus investment website: "The GEP functions like a mutual fund, which means UCR does not directly invest in any individual financial assets through the GEP. Instead, UCR invests in the GEP, which holds a variety of financial assets determined by UCIO. The complete list of GEP holdings as of June 2024 is available here. As of May 2024, approximately $350 million of GEP assets were invested in companies that manufacture, or provide service to, military weapons, weapons components, or weapons systems (based on a methodology used by Morgan Stanley Capital International). The 1.2% share of the GEP held by the UCR Foundation Board represents about $4.2 million of these assets."

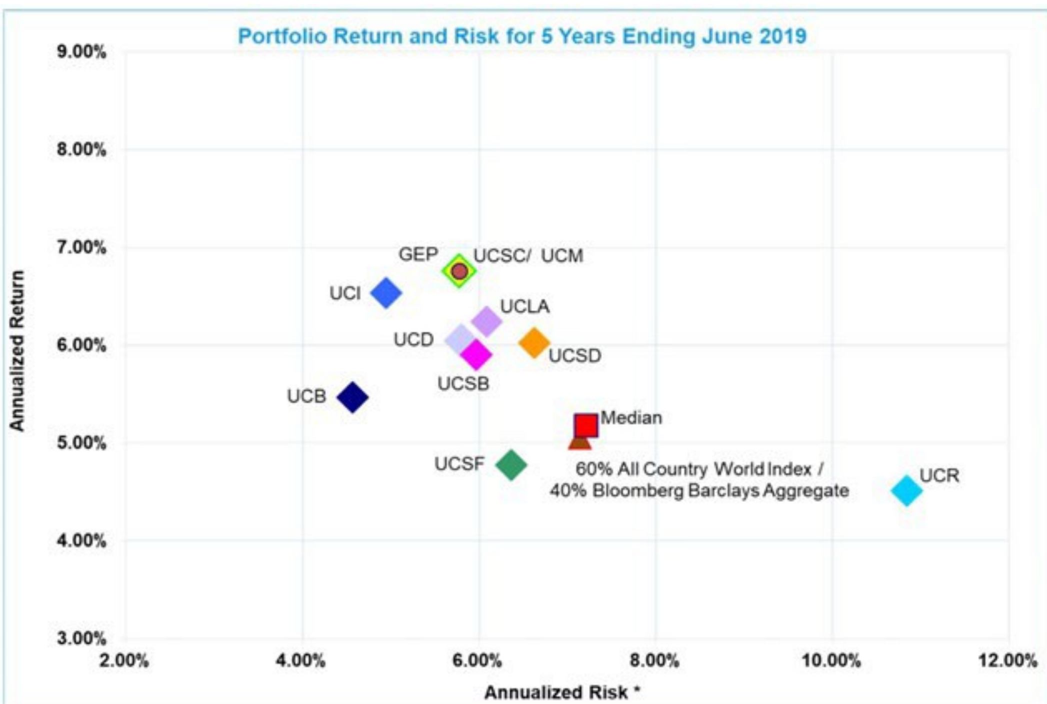
None of this $4.2 million is invested directly in any weapons manufacturer; instead, it is invested indirectly through index funds.

UCRF Board and Investment Policy

The UCRF Board includes many individuals with meaningful connections to UCR. UCR's chancellor is a voting member of the board. Other ex-officio members include the president of the UCR Alumni Association and the UCR Alumni Regent. Standing guests at each board meeting include: UCR's provost, all vice chancellors, all deans, the university librarian, the chair of the Academic Senate, the Athletics Director, the chair of the UCR Athletics Association, the president of the Associated Students of UCR, and the president of the Graduate Student Association.

The extent to which the UCRF Board engages and communicates with campus stakeholders about its investment policies, beyond the group of board members and standing guests who attend board meetings, is unclear to the taskforce. For example, the UCRF website hosts annual financial reports but not the UCRF investment policy nor links to UCIO and its applicable policies. The taskforce also heard anecdotally that the student representatives, each of whom is the president of a large student association, may not have sufficient time to devote to board meetings among their many obligations, or sufficient expertise to contribute to discussions.

Prior to 2019, UCRF did not utilize UCIO for investment management, choosing instead to contract with a private investment manager. Financial returns were generally worse than for other UC campuses (see below, top panel). After a review, UCRF decided to move the UCRF endowment to the GEP anticipating access to higher quality investments and better financial performance. This was realized (see below, bottom panel): returns increased and risk decreased relative to other UC campuses and the benchmark (labeled "Universe Median"). As a result, the annual endowment payout also increased from 4.0% to 4.5%.



Source: UC Investments Office annual reports.

Source: UC Investments Office annual reports.

By deciding to move nearly all of the UCRF endowment to the UCIO-managed GEP, UCRF effectively has adopted important operational elements of the UCIO investment policy. These include performance benchmarks, investment selection criteria, allowable asset allocation ranges, and the UCIO Environmental, Social, and Governance (ESG) framework. Although UCRF has its own investment policy, it does not have its own ESG guidelines or a formal procedure for considering divestment requests. Instead, it appears that UCRF would defer such questions to UCIO and the Regents. This differs from at least some other UC campus foundations, including UC Berkeley, UCLA, and UCSF, that retain more local control. For example, the UC Berkeley Foundation created an ESG committee in 2014, adopted ESG guidelines in 2016, and created a procedure for considering divestment requests in 2018.

Generally, the UC campus foundations with larger endowments tend to manage greater shares of their assets locally and thus have more expansive campus foundation investment policies, including language about values, ESG guidelines, and connection to the campus mission.

Divestment Case Studies

Divestment is typically a complex and lengthy process that may involve:

- Financial modeling to evaluate alternative investments.
- Consideration of moral and ethical factors.
- Consideration of political factors.

- Extensive stakeholder engagement to assess preferences.
- Consideration of the impact on the target(s) of divestment.
- Allowing the target(s) of divestment time to respond before divesting.
- Consideration of legal liability for appearing to contradict fiduciary responsibility.
- Request for legislative action to indemnify against this liability.
- Development of criteria/filters/screens to guide divestment.
- A multi-year phase-in period.

At least four times previously, the UC Regents have divested some of their investment holdings. Below is a summary of each of these situations.

South Africa: UC divestment from South Africa in 1986 was part of a global movement that sought to divest from companies doing business with the country's apartheid regime, which enforced racial segregation and disenfranchisement through institutionalized policies and state-perpetrated anti-Black violence. Early UC conversations on divestment involved a donor's withdrawal of 100 acres of oceanfront property in 1973 due to UC investment ties to South Africa. The UC Regents initially resisted calls to divest, citing financial concerns and political neutrality. US public opinion during this period was mixed, with more Americans preferring to continue doing business in South Africa (49%) than those opposed (34%).[2] Dozens of student rallies, boycotts, and protests at UC campuses, as well as growing moral and financial pressure from external stakeholders, led to the UC Regents voting (13 to 9) to divest $3.1 billion in South African related investments. Amidst debate about the financial impact, some regents acknowledged the decision was necessary on moral grounds. External pressure played a crucial role in supporting the widespread internal resistance that ultimately ended political apartheid in South Africa in 1994.

Tobacco: In 2000, after decades of avoiding tobacco stocks, the UC Regents considered a proposal to invest in index funds that included tobacco companies to further diversify the endowment portfolio. The proposal was based on an analysis that found the index funds would be financially beneficial for the portfolio. Some Regents were supportive based on their fiduciary responsibility, while others objected on moral grounds. Lieutenant Governor Cruz Bustamante called the proposal "hypocritical" because UC was receiving $22 million annually in state funding to research tobacco-related diseases. UC President Richard Atkinson offered a counterproposal that was expected to achieve similar financial goals by investing in a different group of index funds that avoided tobacco companies. The counter-proposal was approved and UC continues to avoid investments tied to tobacco

[2] Results from an Associated Press/Media General survey of 1223 US adults conducted in August 1987.

companies.[3] A 2009 report by the Office of the Treasurer of the Regents estimated that the cumulative opportunity cost of this decision was $378 million from 2001-09.

Sudan: In March 2006, the UC Regents voted to withdraw their investments from nine companies doing business in Sudan, whose government and agents had been committing genocide in the western region of Darfur. Two months prior to divestment, the UC Regents voted to notify fund managers of their concerns about investments in companies connected to Sudan as well as to establish a task force to consider the legal and financial implications of divestment. Student activism at multiple UC campuses – including a mock refugee encampment at UCLA – was connected to a broad coalition of advocacy groups that raised awareness about the humanitarian crisis in Darfur and the companies whose revenue supported the Sudanese government's actions. Public opinion at the time was mixed, with almost half (49%) of Americans saying the US had a responsibility to do something about the genocide in Darfur, and 34% saying the US doesn't have a responsibility.[4] The UC divestment decision followed similar divestments made by Stanford and Harvard, but the UC plan also approved divestment from index funds that included the nine targeted companies. The same 2009 report by the Office of the Treasurer of the Regents estimated that the Sudan divestment had an opportunity cost of $2.9 million from 2006-09.

Fossil Fuels: In 2012, UC students began calling for divestment from fossil fuels due to heightened concerns about climate change. In 2017, after students occupied the main administrative building at UCSB, Chancellor Henry Yang endorsed calls for divestment. The Academic Senate added its voice in 2019. Meanwhile, the UC Regents were engaged in a multi-year project to establish their first ESG framework. One year later, in 2020, the Regents announced they had completed their divestment from fossil fuels. Unlike other UC divestments, this case was marked by significant alignment with financial goals. The UC Investments Office had come to view fossil fuel companies as "stranded assets" of lower value to the endowment portfolio, while renewable energy was viewed more positively. UC continues to avoid fossil fuels, invest in renewables, and promote decarbonization efforts across the campuses.[5]

The San Francisco State Model

As an additional case study, we examined San Francisco State University (SFSU), which began experimenting with a stronger ESG focus in 2013 and eventually rewrote its

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3 "UC Regents Drop Plan to Buy Tobacco Stocks" by Kenneth R. Weiss, *LA Times*, January 18, 2001.

4 Results from a Pew Research Center survey of 1503 US adults conducted in May and June 2007.

5 "UC becomes nation's largest university to divest fully from fossil fuels" by Teresa Watanabe, *LA Times*, May 19, 2020.

investment policy to emphasize robust ESG guardrails for its entire endowment. Their experience during the past twelve years provides a model worth considering for how a campus can engage meaningfully with stakeholders, pilot an ESG-focused investing approach, and be responsive to new concerns.

In response to SFSU student concerns about fossil fuel investments held by the SFSU Foundation Board in 2013, the Board created an alternative investment vehicle that they called the "Green Fund." The Green Fund co-existed with the main endowment fund but had stronger ESG guardrails that were responsive to student concerns. It functioned as an investment option for potential donors, receiving new capital and earning returns from 2013 through 2020.

After the murder of George Floyd in 2020, SFSU stakeholders redoubled their calls for an investment policy consistent with their values. In response, the SFSU Foundation Board compared the performance of the Green Fund with the original endowment and found that the Green Fund was performing better: it had higher returns and stronger appeal among their donor base.

The Board soon began the process of rewriting its investment policy with a heavy emphasis on ESG principles. A committee of sixteen was responsible for this, with each member having expertise in ESG issues and/or representing campus stakeholders. Students, faculty, staff, and community leaders were included. The Board approved the new policy and their fund managers began rebalancing investments in 2021.

The Board updated its policy again in 2024 with an addition to the section on human rights, in response to concerns expressed by community members and Students for Gaza regarding the university's complicity in funding weapons manufacturing and delivery. In conjunction with students, faculty, staff, and community members, the SFSU Foundation Board revised their policy to ensure that the university's endowment, currently valued at $175 million, will not be invested in companies that generate more than 5% of their revenue from weapons manufacturing.

While the SFSU experience demonstrates the potential for achieving alignment between stakeholder values and financial goals, it is important to note that UCR has access to higher quality (lower risk, higher return) investments than does SFSU, meaning that the Green Fund may not out-perform the UCRF endowment as currently invested in the GEP.

Weapons-Free Investing

Many investment managers offer filters to screen out investments that are tied to weapons manufacturing. In response to questions from students in Spring 2024, UCIO used a methodology by Morgan Stanley Capital International (MSCI) to identify GEP investments in weapons manufacturing. This is the basis for the $4.2 million estimate cited above from the campus investment website. This methodology, and others like it, are complex and time-consuming to implement (and not error-free). Investment managers consider the details to be proprietary because they are services offered to clients for a fee. Therefore, methodological details typically are not publicly disclosed.

An example of an investment manager with experience utilizing weapons screens is Praxis Mutual Funds. A representative from Praxis who shared the following:

- Index funds almost always fail any “purity test” because they hold so many companies. Out of hundreds of companies, holding just one or two prohibited companies, even if the goal of holding is to affect change through shareholder advocacy, can significantly reduce a fund’s grade.
- Funds that perform best tend to be actively managed and/or focus on sectors that are unrelated to the issue being screened (n.b., actively managed funds tend to have higher fees; and sector funds tend to be less diversified and thus riskier).
- Screening (divestment) is a less effective tool for achieving social change when compared with strategies such as shareholder advocacy, proxy voting, and intentional community development investing.

One publicly available weapons screen is offered by WeaponsFreeFunds.org (WFF). WFF focuses on a list of approximately 250 companies comprising large, publicly traded arms manufacturers and military contractors; companies involved in nuclear weapons; and companies involved in controversial weapons such as cluster munitions and landmines. WFF screens these companies by reviewing lists published by 23 primary sources including investment firms, pension funds, news outlets, and advocacy groups. Because WFF relies on these other sources, their screening methodology is not as precise nor as sophisticated as MSCI, which does its own screening. Whereas MSCI could explain exactly why a company was screened out, WFF could only point to a primary source and may not know the methodology used by that source.

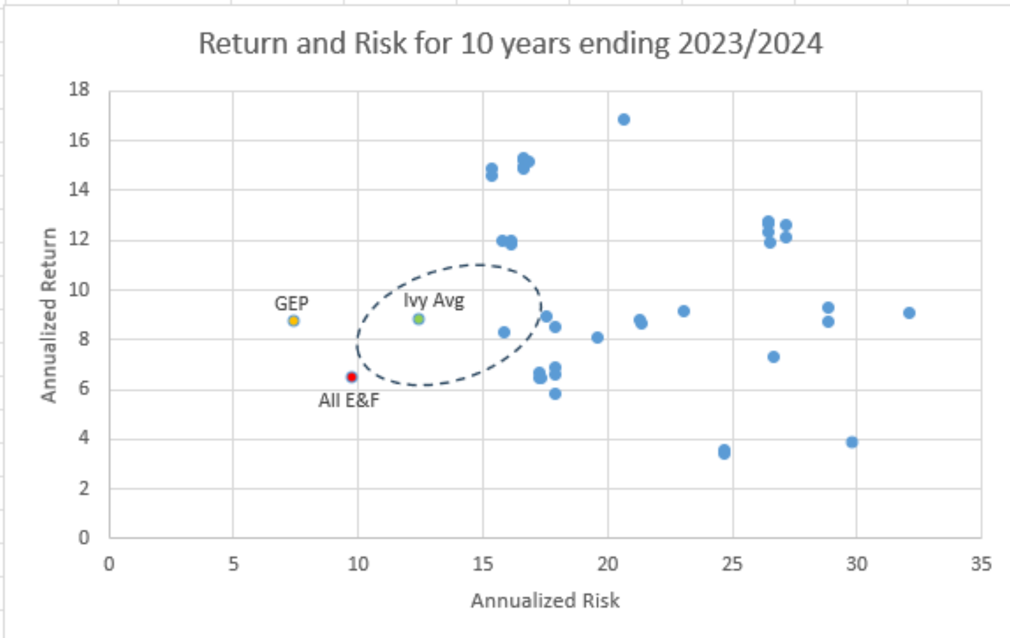
WFF grades for funds are based on holdings in screened companies. A grade of “A” means no holdings in any screened companies. A grade of “B” means no holdings in nuclear or controversial weapons and no more than 2.5% of assets invested in other military contractors. Etcetera. This again illustrates the coarser nature of the WFF screen and the critique of “purity tests” mentioned above: a company may be on a primary source list and yet have a very limited role in weapons manufacturing; another company may be on a different primary source list and have a very large role; in the WFF methodology, these companies are treated the same. Overall, the WFF approach is blunter than the MSCI approach. However, if the goal is to avoid all companies that appear on any primary source list (i.e., a "purity test"), then screening on grades of "A" can accomplish this.

The taskforce used this approach to compare the performance of "weapons-free" funds against large university endowments including the GEP. Consistent with the concerns expressed by students in Spring 2024, we utilized the WFF screen described above (i.e., arms manufacturers, military contractors, nuclear weapons, and controversial weapons) but did not screen for civilian firearms. Specifically, we did the following:

- We used UCIO annual endowment reports to obtain GEP risk and return data.
- We utilized the WFF filters to identify funds that received grades of "A" from WFF for weapons, fossil fuels, and tobacco, and which are classified as US Equity Funds, to make them more comparable with the GEP.
- We sorted the results by 10-year returns and chose the top 10, bottom 10, and 20 other funds throughout the middle to show the spread of the data.
- Because WFF does not publish risk data, we utilized Morningstar to find the 10-year annualized monthly standard deviation for each fund (the same risk metric reported by UCIO in their annual endowment reports).
- We used analyses from Markovprocesses.com to obtain comparable data for the 9 Ivy League campuses and Stanford.

Given the available data, the resulting comparisons are good but not perfect. UCIO states that their risk calculation may understate true risk in part because some of their assets are non-public which affects reporting of the data used in the calculation. Although Morningstar uses the same risk calculation as UCIO, each of our WFF funds is publicly traded which means even if the calculation is identical then the comparison with UCIO will not be exact. Also, Markovprocesses use quarterly (not monthly) data to calculate risk which can affect the annualized value. Finally, although we obtained 10-year returns for all funds and endowments, the 10-year windows do not overlap exactly (there is a 16-month discrepancy between the WFF funds and the endowments due to reporting lags). However, these were the best comparisons we could achieve given our access to financial data and the timeframe for our work.

Results are shown in the chart below, which plots annualized return vs annualized risk. The GEP and the Endowments & Foundations (E&F) benchmark used by UCIO are labeled as such. The "Ivy Average" also is labeled inside a dashed oval that approximates the spread of data for the Ivy-plus campuses. Each of the blue dots shows one of the 40 WFF funds we identified. Some clustering is evident among these funds because certain companies offer multiple funds with similar investment profiles which satisfy our WFF filters.



Source: Taskforce calculations.

To the extent this comparison is valid, the GEP returns would rank in the middle of the distribution of returns and the risk would be much lower – notwithstanding the caveat about possible understatement of true risk. Using a rough correction we obtained from Markovprocesses for the Ivy-plus campuses, the GEP risk might be understated by about 3.5%. This correction also would apply to the Ivy-plus campuses and presumably to the "E&F" benchmark as well, so the GEP would remain the lowest risk investment and still substantially below the publicly traded funds even after applying the correction. However, something we could not evaluate is the risk associated with a portfolio of these 40 weapons-free funds which is likely how an endowment would be invested.

Recommendations

The taskforce offers two main recommendations. There is unanimous support for the first recommendation, which addresses how UCRF communicates with stakeholders. A strong majority supports the second recommendation, which addresses how the UCRF endowment is invested.

Recommendation 1: Clearly communicate UCRF endowment holdings and investment policies, including ESG guardrails, to campus stakeholders.

University endowments have been and will continue to be subject to periodically intense scrutiny by campus stakeholders. When these instances arise, stakeholders typically want to understand investment policies and their rationales, how the endowment is invested, and how they can engage with questions or proposals for changes to policies. A collective understanding of these things strengthens shared governance and provides a foundation for productive discussions among stakeholders. It is the understanding of the taskforce that one of the contributing factors to the Spring 2024 encampment was student frustration that they could not readily access information about the university investment policy. This also motivated the creation of the campus investment website explaining the endowment as part of the agreement to end the encampment.

In carrying out our charge, the taskforce interacted with the websites of several different university foundations and learned how some of them engage with their campus stakeholders. Generally, we found that information was more readily available for these other campuses than it is for UCR. UC Berkeley and SFSU were mentioned previously. Another example is Yale, which hosts an FAQ on investor responsibility (including why they choose not to disclose their endowment holdings) and a website dedicated to their Advisory Committee on Investor Responsibility.

To some extent, these differences are understandable because UCRF has decided to invest with UCIO, and UCIO hosts relevant information on their own website. However, the taskforce concludes that greater clarity and transparency would be beneficial for members of the UCR community who will naturally seek information from the UCRF website. Specifically, the taskforce recommends:

- Post the UCRF investment policy on the UCRF website, along with explanations that make important aspects of the policy accessible to a layperson audience.
- Explain the Board's investment philosophy, including how the Board weighs ethical considerations that may appear to conflict with its fiduciary responsibility.
- Describe the procedure for stakeholders to inquire about the policy or propose changes; and the procedure for the Board to evaluate proposed changes.
- Explain the relationship between UCRF and UCIO on the UCRF website, along with links to relevant UCIO policies and reports including the UCIO ESG framework. Collaborate with UCIO to make UCIO investment and ESG policies more accessible and understandable to UCR stakeholders.
- Evaluate the effectiveness of current stakeholder representation among standing guests and consider changes to improve communication with stakeholder groups. For example, UCRF could establish an annual town hall, provide regular updates to student groups, invite additional student representatives, or even create a dedicated student advisory committee on investments.

The taskforce also recommends that UCRF maintain updated and accessible information about the composition of the UCRF endowment on the UCRF website to further increase transparency and understanding. The campus investment website provides a model to consider for communicating this information.

Recommendation 2: Evaluate ESG-focused investment options, including a weapons screen, as a component of the UCRF endowment.

Our exploration of weapons-free investing was limited by our access to financial data and the timeframe for our charge. However, our analysis suggests that it may be possible to achieve returns from weapons-free investments that are similar to those of the GEP. The experience of SFSU also suggests that stronger ESG guardrails may be appealing to some potential donors, which may also benefit the overall growth of an endowment; and piloting an ESG-focused fund in parallel with the traditional endowment may be financially prudent. Stronger ESG guardrails also may reinforce some stakeholders' sense of connection to the university mission.

However, other stakeholders could feel disaffected if the guardrails do not align with their personal values or if they believe the guardrails conflict with principles of institutional neutrality on political issues. Some stakeholders, including Board members, also may feel that the existence of two funds with differing investment criteria seems hypocritical.

Taskforce members disagreed about the relative importance of these considerations in determining investment policy but agreed that a further evaluation of ESG-focused investment options and their alignment with the goals of the UCRF endowment is warranted. A strong majority of the taskforce recommends that the UCRF Board explore piloting one or more ESG-focused investment options, including a weapons screen, as a component of the UCRF endowment to be managed alongside the GEP. This exploration should include a rigorous financial analysis of returns and risk, as well as assessments of stakeholder support, donor interest, ethical considerations, and potential broader reputational impacts.

If the Board decides to augment the endowment with an ESG-focused investment option, it may be worth assessing the interest of other UC campus foundations and approaching UCIO with a request to provide this option to all campuses. It is unclear to the taskforce whether UCIO would be able to do this, given their existing investment policies which are set by the UC Regents, their fiduciary responsibility to the Regents, and the observation that UCIO has not proposed divestment from weapons manufacturers as part of its strategy to date. However, at the May 2024 Regents meeting (2:02:33 mark), UCIO floated the possibility of allocating a small amount of capital that would be invested under the direction of a student group who could select their own ESG guidelines. At least one Regent expressed support for this idea, so perhaps there would be a receptive audience.

If the system-wide approach fails and the UCRF Board remains interested in piloting a new investment option for the UCRF endowment, then the Board would need to define its own ESG policy for the new fund and determine a strategy for managing some assets locally.

Concluding Remarks

Moving the UCRF endowment into the GEP has produced more revenue for the campus than we previously were able to generate on our own. Although there is some evidence that weapons-free funds can potentially achieve returns comparable to those of the GEP, we were unable to evaluate the risk associated with a portfolio of these funds. Given the importance of generating a reliable payout from the endowment to sustain mission-aligned activities, and the substantial tradeoffs associated with reductions in these activities, this risk is a critical unanswered question.

Moving the UCRF endowment into the GEP also has reduced the control the UCRF Board can exert over investment decisions, some of which have been viewed and inevitably will continue to be viewed by campus stakeholders as inconsistent with their values. The taskforce discussed the role of values in guiding our pursuit of our institutional mission and the possible implication that any financial resources under our control should be invested in activities consistent with our values, even if the trade-offs are large. Naturally, there will be disagreement among campus stakeholders about these values, or even how we should prioritize a set of values that we share.

For a university community, shared values might include civil discourse and the peaceful resolution of conflict, which could preclude investing in weapons manufacturing if given high enough priority – as at least one, but not all, universities have concluded. But shared values also might include elements of the institutional mission itself – education, research, and public service – which could call for an emphasis on maximizing available resources to support the mission.

When tradeoffs exist, it is far from obvious whether it is preferable to invest for maximum financial return in support of mission-aligned activities; or to accept reduced and/or less reliable financial returns (and mission-aligned activities) but greater indirect institutional impact through values-based investing. The answer largely depends on which values matter more, and this is something about which individual members of a community can and surely do disagree. For these reasons, decisions about our investments – and relatedly, any divestment decisions – must be informed through broad engagement with the campus community to ascertain stakeholder values and the degree of consensus on priorities.