Executive Summary – Sudan Divestment

This summary provides an estimation as to the portfolio impact of the resolution to divest current equity holdings that invest in, or otherwise conduct business with, the government of Sudan. It also gives background on the vendor recommended to supply the University with a list of prohibited companies. A white paper authored by EnnisKnupp is attached which provides a more detailed discussion of the divestment policy issue. There are direct and indirect costs to the portfolio when implementing a divestment policy. The direct costs include transactional costs associated with portfolio readjustment and monitoring costs. There are also indirect costs which are more difficult to quantify that stem from the potential impact of having adverse returns from utilizing non-economic factors in portfolio development. The University's only impacted investment manager, Templeton, estimated trading costs of $2,500 to divest the prohibited companies worth an approximate market value of $2.3 ~~3.9~~ million currently in the portfolio.

To assist with monitoring divestment on an ongoing basis, staff and EnnisKnupp concluded that ISS (Institutional Shareholder Services) would be the most cost effective external provider. ISS provided a fee quote of $3,000 annual subscription cost. ISS is the world's leading provider of corporate governance-related fiduciary services and has over 20 years experience serving the corporate governance needs of the institutional investment community. They currently serve over 1,600 clients. ISS has one of the largest teams of experienced analysts in the industry. In addition, ISS has a dedicated Environmental, Social and Governance portfolio screening team, backed by more than 170 research analysts worldwide. ISS has been following legislative developments related to Sudanese investments for three years. Their research into ties between public companies and Sudan is well established and backed by global research infrastructure. ISS can provide automated compliance with a prohibited company list and updates throughout the year to share with investment managers.

The indirect costs are more difficult to ascertain and the impact can be positive or negative. The table below shows an analysis conducted by EnnisKnupp of the portfolio impact taking into account different returns of prohibited stocks relative to the non-U.S. equity universe. While there is no way of knowing how the prohibited securities will perform relative to those not on the list, the table illustrates the potential impact given the current size and holdings of the Templeton portfolio. For instance, if the prohibited stocks outperform the index by 5%, and the University does not own them, the indirect cost of divestment would be $112,500 or negative 0.25% of the manager's performance. The overall impact on the endowment pool would be negative 0.04% in return performance. The opposite would be true should the prohibited stocks underperform the broad index by the same margin. In that case, the University benefits by the same dollar amount and return percentages.

Relative Performance Assumption of Prohibited Stocks:	-10%	-5%	0%	+5%	+10%
Approximate Dollar Impact on: Templeton Portfolio	$225,000	$112,500	$0	($112,500)	($225,000)
Basis Point Impact on: Relative Templeton Performance	+0.50%	+0.25%	0.00%	-0.25%	-0.50%
Basis Point Impact on: Relative Total Endowment	+0.09%	+0.04%	0.00%	-0.04%	-0.09%