



CENTRAL MANAGEMENT GROUP

8 October 2014

**SOCIALLY RESPONSIBLE INVESTMENT -  
TAKING FORWARD THE UN PRINCIPLES FOR RESPONSIBLE INVESTMENT**

**Description of paper**

1. This paper reports on the recent UNPRI consultation and how we intend to proceed. It seeks agreement on the revised Responsible Investment policy – attached as appendix 1 – which includes the proposal to establish a revised process to consider divestment requests and proposals for a more proactive approach to social investments. This paper also seeks CMG's agreement to activate the new process to consider the case for divestment in relation to two specific classes of contentious investments.

**Action requested**

2. To note progress with socially responsible investment thinking, note the results of the consultation and the proposed direction of travel, to comment on the revised draft Socially Responsible Investment Policy, approve the establishment of a new process and committee to examine contentious investments, and approve the immediate commencement of that process to examine two specific areas.

**Recommendation**

3. CMG is invited to comment on the revised Policy, approve the establishment of the SRS Committee, and approve the initiation of exploring future investments in fossil fuels and armaments.

**Background and context**

4. The PRI consultation ran from early January to early April and invited comment from staff and students. The response was low (less than 300) given the population size but indicated broad support for the majority of the proposals in the consultation paper. A copy of the full analysis of the consultation is available at: <https://www.wiki.ed.ac.uk/display/UCC/Central+Management+Group>

5. The consultation was wide ranging and sought agreement on broad principles to inform the responsible investment approach, as well as exploring improvements to advice, transparency and reporting.

6. The paper also set out broad directions for future investment choices, and sought views on the issue of divestment, including how to make decisions on these questions and what specific areas should be considered. It also sought views on issues of concern to inform future investment choices.

**Discussion**

*7. Responding to the Consultation*

The majority of the proposals in the consultation were supported by the majority of respondents and have been incorporated into the revised policy. These include proposals to increase the transparency and reporting of investments and the principles for investment, subject to minor amendments.

8. A process to scan the horizon for potential responsible investment issues of concern has been proposed, and in due course appointment guidance for the responsible investment element of investment manager appointment will be prepared.

9. Calls to divest from fossil fuels and armaments came from more than half of all respondents, and the student body ran an active campaign on these issues including a large petition submitted to the University Secretary.

10. *Socially Responsible Investment Policy*

The attached (appendix 1) is an updated version of the proposed revised policy to replace the existing 2006 policy. The opportunity has been taken to firm up the principles behind the University's approach, offer more specificity on the positive investments sought, further develop the process to consider contentious investments, and give more detail on a range of issues highlighted by the consultation and discussions with colleagues and stakeholders.

11. A wide range of discussions have taken place on the updated policy including a working group, discussions with senior colleagues, senior academics, views from the Investment Committee and Baillie Gifford, and with external groups and experts.

12. Comment is sought from CMG for the policy prior to submission to Policy and Resources Committee and Court. This will be updated thereafter to take account of the outcome of future decisions reached on contentious investments.

13. *Deciding on Contentious Investments*

As previously highlighted, responses to the consultation produced a range of suggestions for areas which the University might consider avoiding investing in, either on principled or on investment return grounds. It was noted however that any decision would need to consider the University's overall values, impact on investment and knock-on consequences for the University's other activities.

14. The attached revised and updated Responsible Investment policy proposes a revised process for considering requests for divestment, including that CMG may ask the new Social Responsibility and Sustainability Committee (replacement for SEAG) to provide it with advice and options on specific contentious investments meeting established criteria.

15. CMG is asked both to agree to the scrutiny process set out in appendix 1 and to initiate this process in relation to fossil fuels and armaments given the extent of student concern expressed around investment in these two areas. CMG is asked to agree that these two areas should be remitted to the new Social Responsibility and Sustainability Committee for consideration and advice; and to seek to consider this advice and reach a decision in these two areas by winter 2014/15. This timescale is, of course, subject to the need to ensure the adequate consideration of the options by the various parties.

16. The newly formed SRS Committee would be able to commence its consideration of these issues at its October meeting, and it is envisaged that a sub-group of key

representatives, including staff and student representatives, would be formed to manage the review process.

17. At the same time, CMG may wish to seek advice from the Investment Committee on the financial and investment implications of divestment from the two areas.

18. It is important to note that the SRS Committee will be remitted to consider and report back on options in this area, rather than make specific recommendations for approval, since the final decision on recommendations rests with CMG.

19. The consultation and public meetings also raised a number of other areas which individuals suggested should be considered for divestment. It is proposed to develop a background document summarising the overall review process which would explain why they did not meet the criteria for initiating a divestment review.

#### *20. Strategic Investment Approach*

Further work will be undertaken within Corporate Services Group to firm up proposals for consideration by Investment Committee and to be shared with the wider University community for views. The forthcoming review of the climate action plan offers an opportunity to consider in more depth a range of investment opportunities that may support the goals of the updated Responsible Investment policy, and deliver emission reductions and positive cash flows over the medium term.

21. Such investments would potentially come from a range of options including a revolving fund for energy reduction and micro-renewable deployment; direct ownership of, or investment in, on or off-site renewable generation assets; start-ups associated with low carbon or green technology opportunities.

22. The business cases for, and investment cases relating to, these options will be explored in greater depth as part of the climate action plan review. Investments here could potentially be significant to generate significant emission reductions and savings but would clearly need to fit with the overall investment strategy.

23. On social finance there appears to be strong support to take discussions further, accepting (in principle) a lower return that might be obtained from standard investments but deriving social benefit from investments linked to the University's key purpose and activities. Investments here could be of a more modest scale, perhaps starting with a commitment to a fund of a small element of endowment fund assets.

24. Proposals to date have included investment in young people in Edinburgh, widening access, community or student sustainability or energy projects, global justice start-up activities, sports as opportunity, troubled families, cooperative ventures on livestock in the developing world, and other exciting possibilities linked to our core mission and to areas of research strength. Again, much more work is needed to explore these possibilities, develop business cases and ensure they fit with the overall investment approach.

### **Resource implications**

25. There are resource implications. Costs associated with new areas of investment would be considered by the Investment Committee as part of its investment assessment during the implementation phase in line with standard practice. Costs associated with PRI reporting will come from within existing Corporate Services Group resources. The need for further specialist advice in this area will be assessed as part of future planning rounds.

### **Risk Management**

26. This paper does not include a risk analysis but the future design of the PRI implementation process will consider organisational, financial, sustainability and reputational risks in due course.

### **Equality & Diversity**

27. No assessment required, as the consideration of equality and diversity issues are inherent in the nature of the consideration of socially responsible investment.

### **Next steps/implications**

28. The revised policy would be submitted to Policy and Resources Committee and Court for approval. SRS Committee will commence the immediate review of the two issues proposed, starting at its October meeting.

### **Consultation**

29. The broad direction of travel was the subject of a consultation earlier this year. The draft policy has been shared with a range of senior colleagues as well as representatives from the UNPRI Working Group, Investment Committee, investment managers, academics, staff representatives and elected student representatives.

### **Further information**

30. Further information available from the consultation webpages at:  
<http://www.ed.ac.uk/about/sustainability/what-we-do/community/responsible-investment-consultation>

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### **Freedom of Information**

32. This paper can be included in open business.

## University of Edinburgh Socially Responsible Investment Policy

### Introduction and Scope

The University's mission is the creation, dissemination and curation of knowledge. Carrying out our activities in a socially responsible and sustainable way, the University aims to make a significant contribution to Scotland, the UK and the world.

Our research advances human knowledge and understanding, continually breaking new boundaries and pushing the frontiers of existing knowledge. Working together with industry and the public sector to realise the benefits of research and through initiatives such as our [global academies](#), we seek to respond significantly to global problems such as food security, climate change, disease, development needs and population growth. We recognise that stewardship of our financial resources is an essential enabling factor in fulfilling our mission to benefit society.

Responsible investment is an approach that explicitly recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems.

This policy also enables us to meet our commitments to the United Nations Principles of Responsible Investment (UNPRI). It provides guidance from Court to the University's Investment Committee and third party investment managers and decision makers in taking a socially responsible approach to investment.

### 2.0 Principles to Inform Investment

Our fundamental values as a University include supporting new knowledge creation and curation, the principles of openness, rationality and the virtues of debate, critical thinking and academic freedom. Our values include a broader concern for wider issues of social justice, human rights, economic and social well-being. We recognise that there is a clear and global need to manage finite resources efficiently and reduce risks from short or longer term environmental degradation or social exploitation, inequalities or corruption.

In guiding the university's approach to socially responsible investment the University has therefore adopted the following principles:

Principle 1 - The University will use appropriate opportunities to utilise its endowment funds to further its mission to advance human knowledge, benefit the local and global community, and to support its students, staff and alumni.

Principle 2 - The University should take a long-term view of its investment approach, fully informed by the need for financial sustainability, ethical and social impact and environmental sustainability, exploiting opportunities to act as an agent for change

Principle 3 - No investment choices will be made which threaten the long-term viability of the university as a world leading institution, or undermine its core academic freedom

Principle 4 - In making, managing and reporting on its investments, the University will be open and transparent about the reasoning behind its choices, explaining the approaches

that it has adopted to inform its activities and ensuring it seeks a wide range of advice before it makes substantial changes to its approach.

Principle 5 - The University will avoid investing in particular types of activities which are fundamentally incompatible with the mission of the university to benefit society as a whole and the values stated above.

## **Our Approach**

Responsible investment is driven by a growing recognition in the financial community that effective research, analysis and evaluation of environmental, social and governance factors is fundamental in assessing the medium and long term value as well as performance of an investment. This analysis should inform asset allocation, stock selection, portfolio construction, shareholder engagement and voting at company general meetings. We believe that the management of all asset classes can be socially responsible, and that such considerations need to be factored into the appointment, monitoring, engagement and reporting processes of our investment managers.

We propose to be an active investor, setting out our values and concerns clearly, using our investment managers to undertake our engagement. This way we maximise the expertise available to us, and increase the effectiveness of our overall approach. We see a range of choices for engagement, which include raising issues with companies, shareholder resolutions, working in coalitions, monitoring progress with issues of concern, and eventually considering divestment should those companies fail to improve over a period of time. On occasion we may wish to signal issues of potential strategic concern, and proactively pass those issues to our investment managers to raise on our behalf.

We will seek to avoid investment in specific sectors or companies which fail to reach recognised standards on human rights, sustainability, business and labour practices. We recognise and support the principles of the [UN Global Compact](#).

If companies in which we invest fail to progress towards adopting recognised standards or fail to engage with recognised improvement processes, we will initially express concern, and may divest if adequate progress is not made over time. We will also brief our Director of Procurement and other key staff regarding companies that fall into this category to ensure that proposed tenders and purchases avoid inconsistency with this Policy.

## **Socially Responsible Investment Framework**

We recognise the global challenges of urbanisation, population growth, growing demand for food, energy and water, threats posed by climate change, loss of natural systems and the spread of infectious diseases. In line with our principles set out above, we seek to contribute to solving global health and poverty challenges, particularly in developing countries and in meeting the challenge of healthy ageing and tackling major diseases.

We therefore will take appropriate opportunities to invest in companies and funds which contribute to solving these problems. In practice this means:

- Assessing opportunities to direct some of our investment funds towards future energy sources that are cleaner and make a contribution to tackling climate change; where consistent with other investment criteria, investing in a range of low carbon, clean technology opportunities that deliver substantial improvements on current impacts and assist in the delivery of meeting global challenges

- Considering the case for investment in social enterprises that will improve the lives of those in the developing world, alongside socially responsible businesses here in Edinburgh. This may include 'start-up' innovative companies or social investments linked to identified social responsibility themes.

Our practical framework for socially responsible investment is as follows:

- The primary purpose of our investment strategy is to generate financial returns that will help fund our primary activities, recognising the major contribution that these make to develop a better world
- We will continue to invest in a wide range of activities with a strengthened focus on socially responsible environment, social and governance factors
- We expect our investment approach to explore opportunities to invest directly in socially responsible activities and to ensure that the companies or funds we invest in are working towards these objectives, commensurate with agreed investment goals and outcomes
- The practical contribution to be made from various investments to these objectives will vary and is a decision for the Investment Committee in implementing this policy
- Where specific companies or funds have failed to meet recognised standards over time, or undertake activities fundamentally at odds with the values and ethos of the university then we will avoid investing in them and divest where appropriate.

### **Avoidance of Investment in Principle**

The University wishes to maintain its long-standing commitment to avoiding direct investments in tobacco, given the negative impacts on health and the University's commitment to health improvement through research and teaching and direct medical services.

The University wishes to make a difference through its socially responsible and sustainable policy, but recognising the limits of our influence and ability to manage every impact, we have adopted a 'materiality' policy. This means that if the proscribed activity forms a relatively small element of a company's overall business, then divestment will not be considered. We have suggested [5%] [10%] of total company turnover is a suitable threshold at which to consider action.

Such an approach might be needed if the Investment Committee wishes to adopt cost-effective tracker fund approaches (where absolute certainty in this area would be difficult), or to avoid disproportionate effort on investigations of company activities, divestment from which would yield low or minimal benefits or may affect supply chains unreasonably. If the proscribed activity became larger than [5%] [10%] this would trigger a review and possible action.

In judging future areas where the University is asked to consider avoiding investment in principle, we intend to use the following criteria:

- An activity wholly contrary to the values and ethos of the university as stated above
- Impact on investment capital and returns
- Ease of avoiding investment within realistically available investment choices
- Impact on other areas of University activity (research, teaching, fund raising, procurement)
- The University's view of future changes and 'direction of travel' in the area proposed

Our revised process for considering and deciding such issues in future is set out in Annex 1 and updates our existing approach from 2003 and 2006.

## **Reporting, Advice and Transparency**

The University is committed to transparency in the management of its investments, consistent with commercial confidentiality and broader investment goals. We commit to reporting annually to the PRI process and participating proactively in broader best practice and knowledge exchange activities on responsible investment and supply chain impact. We will publish any advice on socially responsible investment passed to the Investment Committee by Court, alongside any guidance we prepare on the integration of socially responsible investment into the appointment and reporting requirements of our investment managers. We will publish a summary of our investments on a six monthly basis, and will publish the engagement activities undertaken on our behalf by our investment managers, within the limits of commercial confidentiality.

## **Advice and Information**

The University of Edinburgh is committed to ensuring it has the best possible range of advice on these matters to inform the Court, Investment Committee and our overall investment and supply chain approach.

The University has established a new Social Responsibility and Sustainability Committee, which will develop advice on issues of concern and opportunities, respond to any request from the University's Central Management Group to provide advice on potential disinvestments, develop advice on social responsibility issues in the appointment of investment managers, identify issues of concern in sourcing certain higher risk goods, services and works, and provide input to future reviews of this policy. The Committee will be supported by the University's own Finance, Social Responsibility and Sustainability, and Procurement departments.

This policy was adopted by Court on xxx 2014 and is due for review in 2018.

## **Annex 1- Examining Future Calls for Avoiding Investment**

1. Any group within the University may draw attention to any investment held by the University that is considered to be wholly at odds with the values and ethos of the University, either on an individual company basis or covering sectors of activity
2. The key criteria against which specific cases would be considered are:
  - An activity wholly contrary to the values and ethos of the university as stated above
  - Impact on investment capital and returns
  - Ease of avoiding investment within realistically available investment choices
  - Impact on other areas of University activity (research, teaching, fund raising, procurement)
  - The University's view of future changes and 'direction of travel' in the area proposed
3. Expressions of concern should be related to either specific companies or specific sectors whose activities or values appear, on the basis of clear evidence, to be so far removed from the University's core values as to give grounds for serious concern. Cases will normally only be considered if brought forward by representative bodies such as EUSA or a recognised trade union, or via the University's committee structure.

4. Cases will be considered by the Central Management Group in the first instance. If brought forward by EUSA, the President and relevant Vice President would attend for discussion of that item. CMG may instruct the Social Responsibility and Sustainability (SRS) Committee to consider the merits of the request and to report back with its findings. CMG may also ask the Investment Committee for comments and analysis.
5. The SRS Committee's deliberations will be led by the Chair of the SRS Committee and supported by the University's SRS, Procurement and Finance Departments. This may include the convening of a special sub-committee to consider the matter further. The SRS Committee is free to consider the best means to deliver a timely, considered and thorough response but in developing its analysis it should apply the criteria contained in the above policy.
6. In reaching its decision, CMG is expected to take into account the current extent (if any) of the investment or procurement managers' engagement with the relevant company on the matters complained of. It is for CMG to decide whether there are sufficiently strong grounds to warrant particular engagement with the company through the mechanisms established by the investment managers where this is not already in hand, or to request strengthening that engagement if already active. CMG may also decide to recommend divestment from a particular company, or avoid investment or acquisition in a specific sector of activity.
7. CMG is empowered to raise matters with the Investment Committee and investment managers without the need for Policy and Resources Committee's/Court's endorsement. Its decisions in regard to whether to do so in individual cases, whether positive or negative, shall be reported to the Policy and Resources Committee and the Court. The investment managers would be asked to report back, giving clear details as to any action that had been taken, so ensuring accountability. CMG will communicate these matters to Policy and Resources Committee and Court as appropriate.
8. It is acknowledged that a situation could arise in which engagement did not assuage serious concerns raised about a particular company. In those circumstances Court may conclude that it should disinvest. The Investment Committee would make the financial consequences of such a decision clear to the Court. There may also be a need to clearly indicate the procurement, sourcing or contractual consequences of any decision.
9. CMG's requests for engagement are normally transmitted to the investment managers via the Investment Committee. However, in exceptional circumstances, it is possible to ask the investment managers to pursue a matter at fairly short notice (e.g. at a forthcoming company AGM). In such circumstances a request for engagement should be passed from CMG to the Convener of the Investment Committee who would communicate it to the investment managers after such consultation with the Investment Committee and SRS Committee as was practicable in the circumstances.