



## Responsible Investment Policy Statement

February 2016

### Purpose of Statement

This statement summarises the approach the University takes to responsible investing, and highlights the progress made along with actions planned in response to policy decisions and strategic objectives relating to environmental, social and governance considerations.

### University of Edinburgh Values

The approach the University takes to responsible investment fully supports the stated values and mission of the University.

The University of Edinburgh aims to be a truly global university benefiting society. It is committed to principles of academic freedom in teaching and research. The Mission of the University, as a world-leading centre of academic excellence, requires that alongside our commitments to research, teaching and employability outcomes we also make:

*“A significant, sustainable and socially responsible contribution to Scotland, the UK and the world, promoting health, economic growth and cultural wellbeing.”*

### PRI Principles

In January 2013 the University took a significant step forward in linking its sustainability and investment strategies, and exercised leadership amongst Higher Education Institutions through its adoption of United Nations Principles of Responsible Investment (UNPRI), now known as PRI.

The PRI is an international initiative that recognises the changing nature of investment. The initiative seeks to advise and support those institutions, investors or fund managers that wish to demonstrate leadership in investing responsibly, recognising that environmental, social and governance issues are increasingly important to the reputation, success and returns from investment.

Responsible investment is an investment approach that explicitly acknowledges the relevance of environmental, social and governance (ESG) factors to the long-term health and stability of the market. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems. It is driven by a growing recognition in the financial community that effective research, analysis and evaluation of ESG factors is fundamental in assessing the medium and long term value as well as performance of an investment, and that this analysis should inform asset allocation, stock selection, portfolio construction, shareholder engagement and voting at company general meetings. Responsible investment requires investors and companies to take a broader view – acknowledging the full spectrum of risks and

opportunities facing them, in order to allocate capital in a manner that is aligned with the short and long-term interests of their clients and beneficiaries.<sup>(1)</sup>

The University is one of 299 'asset owner signatories' to the principles, which state:

*"As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, and asset classes through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:*

- a) We will incorporate ESG issues into investment analysis and decision-making processes*
- b) We will be active owners and incorporate ESG issues into our ownership policies and practices*
- c) We will seek appropriate disclosure on ESG issues by the entities in which we invest*
- d) We will promote acceptance and implementation of the Principles within the investment industry*
- e) We will work together to enhance our effectiveness in implementing the Principles*
- f) We will each report on our activities and progress towards implementing the Principles"*

## **The University Investment Committee**

The role of the Investment Committee is to consider the corporate governance and other related implications of the University's investments. The Terms of Reference for the Committee along with fund analysis and reports are available on the University website at the following link: <http://tinyurl.com/hsxpklm>. The objective of the University 'Endowment and Investment fund' is to grow the value of the fund and maintain the capital in real terms over the long term whilst providing an annual income yield to support the activities of the numerous endowments.

The Investment Committee meets quarterly to review the performance of the appointed fund managers and to consider and implement policy developments and proposals from the University.

## **Actions to date / key events**

### **Consultation on Socially Responsible Investment**

Following signing of the PRI the University consulted with staff, students and alumni about how the University should invest its funds. Key issues that emerged were the need to take a proactive approach, to undertake reviews of the University's approach to investments in fossil fuels and armaments and to improve the transparency and reporting of existing advice and activities in this area. The consultation led directly to the reviews discussed below. Details of the consultation can be found at:

<http://tinyurl.com/qhz478l>.

## **Social Responsibility and Sustainability Strategy**

Adopted by Court on 15 February 2010, the 2010-2020 strategy outlines the strategic role the University will play in responding to global challenges (<http://tinyurl.com/qy4tpyf>).

### **Fossil Fuels**

The University set up an evidence based review group whose conclusions were considered by Court in May 2015. This concluded that the University should seek means through investments to support the transition from a high carbon to a low carbon society, as long as actions taken are consistent with other University objectives and values. The consequent operationalisation of this conclusion has been divestment from three companies engaged in the most polluting activity (Coal and Tar Sands).

The recommendations of the group, endorsed by Court, are being progressed through the Investment Committee. These are as follows:

- Assess stranded assets argument (this issue is being progressed with the Committee's appointed investment advisor);
- Identify and replace (to low or zero carbon investments). This option is being progressed both with appointed individual fund managers and the Committee's investment advisor;
- Report, benchmark and improve. Consideration is being given to how best to progress this in an effective and proportionate manner utilising the expertise of academics within the University;
- Divest from highest carbon emitting fuels where alternatives exist. This recommendation resulted in an agreed methodology for targeting investments in companies engaged in the highest polluting activities (coal and tar sands), followed by divestment from three companies and engagement letters to remaining investments operating in the Fossil Fuel sector. Divestment was achieved before the close of the 2014/15 financial year, and annual exclusion lists are provided to the University's fund manager to ensure continued compliance with Court approved policy.

### **Armaments statement**

Court has endorsed the identification of controversial armaments as an area in which the University should not invest, and approved the policy based on the exclusion of controversial weapons. The Sustainalytics definition of controversial weapons is used: anti-personnel mines, biological weapons, chemical weapons, cluster weapons, depleted uranium ammunition, nuclear weapons and white phosphorus weapons.

### **Other exclusions**

Earlier decisions were made not to invest in Tobacco stocks and in Ultra Electronics. The Investment Committee will continue to respond to the decisions of the University relating to specific exclusions.

Working closely with Investment Committee, Investment Advisors and academic colleagues, the Department of Social Responsibility and Sustainability (SRS)

develops and maintains the exclusion lists compiled to ensure compliance with and reporting to PRI as well as agreed University investment decisions.

### **PRI Report submission**

Our first report was submitted on 31/03/15 for the 2013/14 year (<http://tinyurl.com/ooasgm9>). The SRS team works closely with the Investment Committee and the University's investment advisor to develop the annual submission; the 2014/15 report is due in March 2016.

### **Global Alpha Choice Fund**

In line with the University's ongoing commitment to implementing best practice around ESG issues, the Investment Committee completed the switch of our direct investment fund into the Baillie Gifford Global Alpha Choice fund in December 2015. The fund applies far reaching screens in the following areas: Tobacco, Gambling, Alcohol, Armaments and Adult Entertainment. In addition the exclusions agreed through the application of the internal criteria for fossil fuel investment will be provided and adhered to by the fund manager.

### **Pooled Investment Review**

Funds from many individual investors are often aggregated into 'pooled funds' for the purposes of investment. Pooled fund investments benefit from economies of scale, which allow for lower trading costs, diversification and professional money management. Investment decisions are made at the pooled level, so individual investors tend to have less direct influence on the investments within the fund.

The Investment Committee will consider the impacts of the recently agreed policies regarding Fossil Fuels and Armaments on pooled investment vehicles in early 2016. Consideration of alternative funds and fund managers will form part of the review.

### **External recognition**

The University has achieved numerous awards and is engaged in many ESG related activities, such as: Green gown awards; NUS Environmental improvement award; Athena SWAN; BREEAM outstanding (for the ECCI development in High School Yards); Food for life; Britain in bloom.

### **Internal activities**

Internally the University has: published its Climate Action Plan; promoted several travel initiatives for staff and students; invested in resource efficiency; Fairtrade; Biodiversity; Estates development.

### **Social Impact**

In considering our approach to responsible investment, we have also considered if we can do more to ensure we are delivering maximum social benefit through the sum of our activities. The importance of benefiting society as a whole is reflected in the University vision and mission and we deliver on that through the breadth and depth of our research and learning activities. Examples include the work of our global academies (for example, in fighting disease in Africa); ensuring we are developing students who will be able to make strong contributions to tackling complex global problems; and pioneering cutting edge approaches to fighting cancer. Our staff and students also contribute locally and directly through a range of

volunteering activities, such as offering pro-bono legal advice, working with the Grassmarket project, and community liaison at Easter Bush.

In addition to this wide-ranging activity, we are reviewing whether there is more that we could do to invest to deliver social benefit. One promising area, which we are currently exploring, would be for us to attract and manage the investment of external resources to deliver agreed social returns. This would be an exciting departure for the University, leveraging our knowledge and expertise to deliver social impact. An event hosted by the Senior Vice-Principal in January explored these issues further. If this exciting opportunity is confirmed, this should provide the University with the opportunity to gain experience in this area which we will be able to draw from in considering future potential initiatives. We will also be informed by the current scoping work into social investment which is being carried out by EUSA.

### **Process**

In addition to this proactive approach, the University recognises that from time to time issues may emerge around particular industries which raise questions in parts of the University community about the ESG considerations we are committed to in our investments. We welcome dialogue about these issues and will continue to work with elected EUSA representatives and staff forums in exploring these issues in relation to our commitment to the PRI and in discussion with the Investment Committee. Central Management Group will remain the locus of any recommendations for changes in our policies, with Court endorsement as appropriate.

### **Conclusion**

The University's commitment to responsible investment is tangible and underpins our stated values and our mission. The University considers the potential impact of decisions on all of its activities and seeks to understand the consequences of implementing its choices. Significant progress has been made to date and work continues to ensure that the informed decisions taken by the University Court are quickly and effectively implemented.