THE UNIVERSITY *of* EDINBURGH

# Taking forward the United Nations Principles for Responsible Investment

## A consultation paper

**10 January 2014**

www.edin.ac/1dWzhf8

## SUMMARY

This paper outlines and seeks views from the University community of staff and students on options for how the University of Edinburgh might fulfil its commitments under the United Nations Principles for Responsible Investment (UNPRI). The paper sets out the context and requirements of the UNPRI, some potential principles to inform the University's decisions, and a range of strategic investment choices for consideration, together with discussion of issues such as transparency, advice and governance.

The University is keen to hear a range of views during the consultation period in order to allow it to take an informed decision as to the best means to operationalize the UNPRI commitments.

## HOW TO ANSWER THIS CONSULTATION

This paper outlines the background and options available to the University. Each section of the paper is followed by one or more questions, and the entire paper contains 12 questions.

**Sample question 1**

The text of questions will appear in this format in order to make them stand out from the rest of the text in the document.

For each question, please give your views on the online form provided. Alternatively, you can answer by emailing your numbered responses to each question to PRI.Consultation@ed.ac.uk

## ALTERNATIVE FORMATS

If you require this document in an alternative format, such as large print or a coloured background, or if you are unable to complete the consultation online please email Sustainability.Department@ed.ac.uk or phone **0131 651 5588** (during office hours).

# SECTION 1 - SETTING THE SCENE

## Introduction - The University of Edinburgh

The University's strategic plan outlines the creation, dissemination and curation of knowledge as its mission, aiming to enhance its position as one of the world's leading research and teaching universities, provide the highest quality learning and teaching environment, and to produce graduates fully equipped to achieve the highest personal and professional standards. Within the theme of Social Responsibility, the University aims to make a significant, sustainable and socially responsible contribution to Scotland, the UK and the world, promoting health, economic growth and cultural wellbeing.

The University therefore contributes strongly to a range of Scottish Government objectives to deliver a wealthier and fairer, smarter and healthier, greener and safer and stronger society. Our research advances human knowledge and understanding, and through applications such as our global academies, we seek to respond significantly to global problems such as climate change, disease, development needs and population growth. There is therefore a strong link between the management and stewardship of our financial resources, and our ability to meet objectives which deliver on our mission to benefit society.

The University of Edinburgh is internationally renowned for its research and teaching, currently holding 17th place in the QS World University rankings. At the end of 2011-12, the University comprised 31,323 students and 11,000 staff, maintaining an estate of around 300 buildings across 5 campuses. The financial turnover of the institution exceeded £700 million. The University maintains a strong record of continued growth each year, both financially and in terms of its physical estate.

## Context - SRS commitments and drivers

Social Responsibility is included within the University Strategic Plan 2010-2020 as one of six strategic themes. The objectives within this theme commit the University to minimising our environmental impact and maximising our contribution to society. The plan also puts forward a commitment to exhibit high ethical standards, and advocates strategies to demonstrate and report our main social, environmental and economic impacts, and to motivate members of the University community to demonstrate and share best practice in social responsibility and sustainability. Policies, plans and procedures are all mentioned as tools to achieve our social responsibility objectives.

Within Scotland, the University of Edinburgh has earned and continues to maintain an impressive track record in terms of SRS, particularly in terms of research, teaching, and student activity. Given the commitments within the Strategic Plan, as well as the ongoing enthusiasm among students and staff alike for the University to excel in this area, it is important that the University upholds this activity and responds to the challenges of the sector, academically and across its operations. Over the past two years, the Department for Social Responsibility and Sustainability have engaged with nearly 3000 members of the University community who are interested in the University's performance in this area.

A 2013 Higher Education Academy/National Union of Students survey of 7000 undergraduate students in the UK shows a similar attitudinal trend nationwide, with 80% of students thinking sustainable development should be actively promoted and incorporated by UK universities.

## Context - What Is the UNPRI and What Does It Require from Organisations?

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).

The UNPRI 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

- You can find out more about the UN PRI at www.unpri.org.

**Annex 1** sets out the University's current socially responsible investment policy which has been in place since 2006. As part of implementing the UNPRI it is proposed that the University uses recognised UNPRI methodology to review its responsible investment policy. Key tasks identified in the UNPRI guide are to:

1. **Undertake a Peer Review**
   Investigate how other HEIs (both UK and international) as well as other investors have formulated their policies, identifying key themes and strands.

2. **Develop a statement of Investment Beliefs**
   Identify the core high-level beliefs that will inform the amendments to the existing responsible investment policy and outline key aspects of how the University manages the Fund's exposures to investment risk, with due attention to stakeholder interests and on-going regulatory oversight. This is not something that exists at the moment but this consultation sets out below our thoughts on how to go about developing one. A good example of an existing statement is the Universities Superannuation Scheme and its statement of investment beliefs .

3. **Create a plan to amend and review the RI policy**
   This consultation forms part of our plan to review the policy and our strategic approach to investment. Part of this will need to be done via engagement with the appropriate committees and part via the setup of a working group to review and amend the existing RI policy. In addition, consideration is given below to the development of an investment policy document setting out the investment management structure, governance arrangements, asset allocations and benchmarks. This does not exist at present- see our thoughts below.

## Manager Selection and Monitoring

Fund managers are a key partner in progressing UNPRI. When searching for new investment, manager's consideration needs to be given as to how this is incorporated into the selection process.

The University could consider a policy which requires investment managers to:

- Become a member of the UNPRI
- manage funds in a responsible manner for the long term, considering stewardship and Environmental, Social and Governance (ESG) factors
- assist the company concerned to develop an action plan, if an investment is made despite identified shortcomings in relation to ESG issues; or if any issues arise during the investment period, to address such issues, with appropriate targets and timetable for improvements
- encourage managers of organisations to work towards continuous improvements in these areas, with appropriate improvement targets
- encourage the managers of companies to adopt and implement policies relating to ESG matters, particularly where businesses entail significant risks
- monitor portfolio companies' performance on ESG matters and their progress towards relevant action plans and targets for improvements
- monitor and record incidents involving portfolio companies , and promote appropriate corrective actions
- encourage reporting and feedback to Investment Committee on ESG matters and known incidents, and any corrective actions taken.

Given the range of potential options that exist, and recognising the wide range of views on the way forward, the University is committed to consulting widely amongst the University community- senior managers, staff, students, alumni and donors. We have therefore allowed for time for consultation and engagement in January and February 2014. In the spring of 2014 we will review the responses we have received to the consultation and begin to formulate the way forward on the issues contained in this paper. We hope to prepare decisions for consideration by the University Court during summer 2014, and where necessary develop the follow up programme of work to ensure delivery.

To assist with our discussions, we are forming a working group with representation from functions across the University, plus elected staff and student representatives. The working group will provide advice and views to support the implementation process and assist with the identification of any implications for the broader work of the University.

# CURRENT RELEVANT UNIVERSITY ACTIVITIES

*Investment, Fund Raising and Research Income*

## Current Investment Activities

### Endowments

The University has received many philanthropic donations for much of its existence. Many of these donations are made for specific purposes e.g. to support research into diseases, to support research into animal welfare, to stimulate new areas of activity, to provide bursaries to students etc. Often the nature of the donation is such that the sum of money endowed is to be invested and the income from that investment used for the purpose specified. It is incumbent on the University to invest endowment monies wisely and obtain a good financial return to maximise the benefit to the specified purpose.

At 31 July 2013 the University held endowment investments valued at £284m, of which 65% were invested in equities, 20% in Fixed Interest stocks, 11% in Property, and 4% as Cash and Working Capital. There were 778 individual endowments and the expenditure distributed in 2012-13 amounted to £8.5m.

Further details of the University's fund raising and investment activity are shown in Annex 3

### Investment Committee

The Investment Committee of the University is responsible for the oversight and strategic direction of the endowment investments. The University of Edinburgh Court appoints members to the Investment Committee drawn from both Court members and external investment professionals.

Investment Committee Key Roles and Responsibilities:

- Sets investment policy and strategy
- Determines asset allocation
- Identifies Fund Managers
- Monitors fund performance
- Advises University Court on its investment programme

Further information on the remit and role of the Investment Committee.

## SECTION 2- PRINCIPLES TO INFORM DECISION MAKING

The UNPRI commitment is all about trying to show both what investment decisions an organisation has made, and just as importantly, why and how those decisions are made. The University feels that its commitment to responsible investment would be strengthened if stakeholders were clearer about the principles underpinning the investment decisions that it makes.

We therefore propose to adopt a series of principles that will inform the variety of investment activities that we need to make- from setting out our investment stance, to appointing our investment managers, weighing the advantages and disadvantages of the various strategic choices we have, and improving the transparency and communication of our activities.

### Principles to Inform Investment

**Principle 1**- The University will seek to maximise the opportunities to utilise its endowment funds to further its mission to advance human knowledge and benefit society, and to support its students

**Principle 2 -** The University should take a long-term view of its investment approach, fully informed by the need for financial sustainability, wealth creation, ethical developments, environmental sustainability and public and social value

**Principle 3 -** No investment choices will be made which threaten the long-term viability of the university as an ongoing institution or undermine its core academic freedom

**Principle 4** - In making, managing and reporting on its investment choices, the University should be open and transparent about the reasoning behind its choices, and the approaches it has adopted to inform its activities

**Principle 5 -** The University will seek to maximise its opportunities to act as an agent for change, to encourage a wealthier and fairer, smarter and healthier, greener and safer, and stronger society, ensuring that it considers the potential impact of investment choices as drivers for positive change where possible

**Principle 6 -** The University will seek to ensure it receives a wide range of advice and consults widely before it makes substantial changes to its responsible investment approach

**Principle 7** - The University reserves the right to avoid investing in particular types of activities which are fundamentally incompatible with the mission of the university to benefit society as a whole.

### Question 1

Do you consider that these are the right principles to inform the University's investment decisions going forward?

Can you suggest alternative principles to consider?

## SECTION 3- STRATEGIC APPROACH TO INVESTMENT

It is important to recognise that in seeking to be a responsible investor, the University has a range of strategic options that it can consider, each of which would appear to have a range of advantages and disadvantages. The University must carefully weigh the impact of adopting one or more of these choices before coming to a decision and is keen to know your views before making a final decision.

We have considered what options we think are available to us in the light the proposed principles in section two and summarise our proposed approach in Table 1 below. Taken together we believe the range of approaches set out the table is a balanced and positive way to move forward.

We propose to be an active investor but using our investment managers to undertake our engagement. That way we maximise the expertise available to us, and increase the effectiveness of our overall approach. We see a range of choices for engagement, on a continuum from raising issues with companies, to monitoring their progress with issues of concern, to eventually considering divestment should those companies fail to improve over a period of time. Using the scanning process proposed later in the paper, we would anticipate that in occasion we may wish to generate issues of potential strategic concern, and proactively pass those issues to our investment managers to raise on our behalf. More work is needed to identify the range of scope of potential issues and how best they might be generated, and to do so in a way which maximises effectiveness, protects returns, and avoids confusing existing roles between the University, the Investment Committee and the investment managers

In addition to the options set out in the table, the University already seeks active engagement with individual companies on a range of environmental, social and governance factors via its investment managers.

**Table 1 Strategic Approach**

| Approach | Pros | Cons | Comments |
|---|---|---|---|
| **1 – Investment in companies and funds which contribute to a wealthier and fairer, smarter and healthier, greener and safer and stronger global society** | Promotes the university's overall mission to improve society. Sends a clear signal of intent and aligns to university commitments on strategic objectives to its actual investment activities | None | Has value and should be incorporated into the overall approach. |

| Approach | Pros | Cons | Comments |
|---|---|---|---|
| **2 - Direct investment in university activities and objectives e.g. renewable energy generation- on –site or off-site, climate emissions reduction, energy efficiency etc.** | Sends a clear signal of intent and aligns university commitments on strategic objectives to its actual investment activities. Broad scope across renewable energy, energy efficiency, and major energy investments. Potentially raises complex issues around oversight, management, risk and performance that are broader than financial returns. | Potential for conflicts of interest or introduction of new risks to investment management? Off-site investments may potentially result in investments outwith Edinburgh. Needs careful consideration of new risks and operational implications prior to adoption. | A clear investment case would be needed and confidence that such investments would deliver the required returns. A process to sift opportunities would be needed and may need further governance arrangements to manage investments such as renewable energy assets. |
| **3 - Direct investment in a range of 'start-up' innovative companies or social investments linked to identified social responsibility themes, perhaps using concepts such as social impact bonds** | Again, aligns university investment to identified strategic social responsibility and sustainability but seeks innovative solutions and/or socially beneficial outcomes directly. A potentially wide range of investments from tropical medicines to 'green' start-ups in environmental monitoring, energy efficiency or resource management, educational initiatives to improve outcomes, socially responsible investment in Edinburgh, overseas investments in food or farming etc. | Potentially difficult to define an acceptable scope and increased risk of loss of capital from failure of companies, ideas or other losses inherent to start-ups. Social investing market is relatively immature in Scotland? | The principle of the University investing in start-up ventures has been established via the Old College Capital fund. Such an option is likely to require careful consideration to define a suitable range of options to consider and rigorous review of potential returns and associated losses. Donors may have specific concerns on this option. Alternatively there may be opportunities in this area linked to beneficial social outcomes. |
| **4 - Avoid investment in sectors or companies failing to reach recognised standards** | Clear and strong signal sent by the University that it will not invest in companies that fail to meet specific standards, clear rationale for avoidance of investment | Potentially impacts on returns, implies the standards to be met are clear, verifiable and objective. Potentially raises costs on Investment Managers (IMs), and not always clear where final decision rests | Has value and should be incorporated into overall approach. Potentially requires clarity over range, scope and measurement of standards, criteria for accumulated failures and periods when investments cannot be made, also clarity over role of University and IMs and reporting mechanisms as well as review of effectiveness |

## Question 2

Do you support the strategic approach to investment as set out above and in Table 1?

## Question 3

Are there any further strategic options missing that you consider that the University should adopt? Please give examples of where these options have been adopted elsewhere

### Avoidance of Investment 'In-Principle'

Of the Principles to Inform Investment (page 7), principle 7 highlights that there may be a limited number of cases where the University wishes to avoid investing in certain activities 'in-principle' i.e. regardless of the investment return available or the management or operational performance of a specific company.

These circumstances would arise where it is felt that such activities are simply incompatible with the ethos and values of the university. For example, the University has taken the decision to divest from tobacco.

These are complex questions which the University wishes to explore before coming to a view, and involve a reflection on a range of questions around what are the fundamental values and ethos of the university, what common ethical stances will command widespread support, what are the intentions of companies to improve, what is the impact on returns and the ability of the University to proactively effect change via engagement and so on. Additionally, any potential expansion of such an approach might need to consider a test of 'materiality' whereby if the proscribed activity forms a relatively small element of its overall business, then avoidance of investment will not be pursued. Such an approach might be needed given any desire 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, avidance of which would yield low or minimal benefits.

## Question 4

Going forward, there is likely to continue to be pressure to consider a broader range of divestments. By what process or methodology do you consider that the University should consider these questions? What processes are required in order to inform such decisions?

## Question 5

What do you consider to be the fundamental values and ethos of the University, which are relevant to these considerations?

## SECTION 4 - ORGANISATIONAL AND POLICY CHANGES

In this section we draw attention to the range of practical matters that the University will need to address in order to fully discharge its responsibilities under the UNPRI. We set out our thinking on these issues and seek your views.

### Long-term investment views, principles and investment stance

We propose to prepare a short document, publicly available, which would set out our reasoning behind our current investment stance, draw on the principles outlined in section 2 above, and including our approach to the strategic options set out in section 3. Such a document would meet the UNPRI requirement to prepare a state of investment beliefs, and would replace our current Socially Responsible Investment Policy.

Such a document would spell out our commitment to be an active and influential investor, and would guide our investment managers when they allocate funds. We would propose to update the investment stance every 4 years, to reflect on-going developments and emerging issues.

In advance of the future updating of the investment view we would propose to undertake a planned horizon scanning exercise to ensure our investment stance is well informed. Such an exercise could be undertaken by the University's Social Responsibility and Sustainability (SRS) department, our investment managers or by an advisory forum (see below), or some combination of the above.

**Question 6**

Do you agree that the investment view approach, set out above, would be useful and would fulfil the University's UNPRI requirements?

**Question 7**

Do you have any views on the content and scope of such a document?

## Guidance to the Investment Process

In addition to the long-term investment document set out above, there is a need to provide specific advice to investment managers under the terms of the UNPRI. There may also be a case for specific guidance from the University Court to the Investment Committee itself. Such advice could restate the principles discussed above, highlight any areas where the University wishes to divest from 'in-principle', explain the University's rationale and strategic choices for the next 4 years, and identify areas of concern or emerging issues where the University might wish its investment managers to pay particular attention to. However it may be felt that the investment document set out above would fully meet these requirements, especially given that it would be updated every 4 years.

A case may also be made that the current SRI policy is reactive, in the sense that the University awaits specific cases to be put to it, before considering whether and how to address the questions raised. It may be that a structured approach to advice on these questions would be more helpful, drawing in a wider range of expertise on sustainability, ethical and social responsibility questions. There are a number of choices about how such advisory fora could be established, what their remit and scope would be, and who would be entitled to be members of such groups.

One potential model is for an advisory forum to be established, which provides discretionary advice to the University Court or directly to the Investment Committee. Such a committee could consist of an elected staff member, elected student member, chair of the investment committee ex officio, plus a range of wider social responsibility, sustainability and ethical expertise, drawn from business, campaign groups, academic expertise, and the investment community and advisers. Care would need to be taken to avoid conflicts of interest and ensure that the University's discretion was not unduly fettered. The remit of the group could include: advising on the 4-yearly update to the investment view document; advising the university on emerging issues or concerns to consider further; receiving and advising on specific requests foravoidance of investment; advising on specific opportunities arising from whatever choices the university makes on the proposals considered in section 3 above.

### Question 8

Do you agree that an investment managers guidance document as described would be useful and appropriate? Do you have any suggestions for its content?

### Question 9

Do you agree that such a document would fulfil the University's requirements to set out its investment stance and provide guidance for the appointment of Investment Managers as required under the UNPRI?

### Question 10

Do you have any views on the scope and remit of any potential advisory fora that the University might establish? Do you have any views on membership?

## Transparency and Reporting

The University believes that a responsible investment must be committed to transparency, whilst showing due respect for necessary commercial confidentiality. Additionally, it will become a requirement from 2014 for UNPRI signatories to begin to report their activities in order to take forward their commitments.

The University recognises that it could improve its disclosure of relevant investment materials and thus improve the level of debate and understanding of what it is trying to achieve, and the dilemmas and difficulties that any responsible investor faces.

We therefore propose that a package of improvements are made to demonstrate our commitments in this area. Such a package might include:

- Publication and regular updating of the investment view document discussed above
- Publication of any specific guidance from University Court to the Investment Committee
- Publication of any specific guidance given to the University's Investment Managers under the UNPRI
- Publication of the annual report from the University to the UNPRI process
- Proactive publication of the University's investment portfolio on a quarterly or annual basis
- Publication of the active investor activities of the University's investment managers on behalf of the University

### Question 11

Do you agree that such a 'transparency' package would be an effective means of demonstrating the University's activities in this area? Do you have any further suggestions?

## Conclusion

**The publication of this consultation document is a key milestone in the process of delivering the University of Edinburgh's commitments to be a responsible investor and to deliver on the UNPRI requirements.**

We have set out a wide ranging potential list of actions and commitments, from the fundamental principles that inform our approach to responsible investment, to the range of strategic options that we consider exist, and the supporting revisions to guidance, governance, transparency and reporting that we believe are required.

We would welcome your views on any or all of the above. Once the consultation period has closed we will carefully analyse any responses received before coming to final views. We will also supplement our formal consultation with a range of meetings, seminars and discussions with key managers, Court and Investment Committee members, staff and students, and alumni.

### Question 12

Are there any other issues that you think we should consider in order to effectively implement our commitment to responsible investment?

# ANNEX 1 - CURRENT SOCIALLY RESPONSIBLE INVESTMENT POLICY

The University of Edinburgh

## *"Socially Responsible Investment" - The Agreed Approach*

### Policy

1. It is competent for the University Court to give the Investment Committee, and hence the Fund Managers (Baillie Gifford), guidance and indeed, instruction, on the way in which the endowment funds are invested. The Court recognises that compliance with such guidance could constrain the Investment Committee's capacity to secure the maximum return on the endowment funds, and in such circumstances the Investment Committee may well choose to advise the Court of the prospective impact of any restrictions placed on their freedom of action

2. The Court has endorsed an approach based on 'engagement' with companies on ethical issues through the Corporate Governance Unit operated by the Fund Managers

3. The Court has also agreed that information regarding the companies and other funds in which the University's endowments are invested should be published annually

4. As a consequence of 2 and 3 above, it is possible for any group within the University to draw attention to any investment held by the University that is considered 'unethical'. The Court has declared its willingness to consider such representations, on the following basis

5. The key criterion against which specific cases would be considered would be whether the activity complained of (and substantiated) was wholly contrary to the University's value systems either as reflected in the Mission Statement, the Goals and the Corporate Plan or in regard to wider issues of social, environmental and humanitarian concern. This would for example include, but not be limited to, human rights abuse, discrimination on grounds of race, gender or disability and serious and persistent environmental damage.

### Process

6. Expressions of concern should be related to specific companies 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 are 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.[1]

7. Cases are considered cases by the Central Management Group in the first instance. If brought forward by EUSA, the President would attend for discussion of that item. CMG is expected to take into account the current extent (if any) of the Fund Managers' engagement with the relevant company on the matters complained of. It is for CMG to decide, on Court's delegated authority, whether there are sufficiently strong grounds to warrant engagement with the company through the mechanisms established by the Fund Managers where this is not already in hand, or to request strengthening of that engagement if already active

[1] A possible alternative approach could be for representations to be considered by the Court to the effect that the University should disinvest in categories of companies identified by reference to the businesses in which they are engaged. This has not been generally adopted, not least because the criteria for identification of such businesses would be matters of personal opinion. However, in 2004 a proposal that the University should disinvest in the tobacco industry was made, and was accepted by the Court as an exceptional case in view of the impact of that industry's products' on health, in the context of Edinburgh being a major centre of medical research.

8. CMG is empowered to raise matters with the Investment Committee and Fund Managers without need for Finance and General Purposes Committee's/Court's endorsement. Its decisions in regard to whether to do so in individual cases, whether positive or negative are reported to the F&GPC and the Court. The Fund Managers would be asked to report back, giving clear details as to any action that had been taken, so ensuring accountability. CMG communicates these matters to F&GPC and Court as appropriate

9. It is acknowledged that a situation could arise in which 'engagement' did not assuage serious concerns raised about a particular company. In those circumstances it might be concluded by the Court that it should disinvest. The Investment Committee would no doubt wish to make the financial consequences of such a decision clear to the Court

10. CMG's requests for engagement are normally transmitted to the Fund Managers via the Investment Committee. However, in exceptional circumstances, it is possible to ask the Fund Manager's Corporate Governance Unit 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 Fund Managers after such consultation with the Investment Committee as was practicable in the circumstances.

**M D Cornish**
University secretary
Based on proposals adopted by the University Court in July 2003
Modified December 2006 following disbandment of the Trustees and formation of the Investment Committee

## ANNEX 2 - SUMMARY OF UNPRI REQUIREMENTS

| Six Principles | Possible Actions |
|---|---|
| **1. Incorporate ESG issues into investment analysis and decision-making processes.** | • Address ESG issues in investment policy statements<br>• Support development of ESG-related tools, metrics and analyses<br>• Assess the capabilities of external investment managers to incorporate ESG issues<br>• Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis<br>• Encourage academic and other research on this theme |
| **2. Be active owners and incorporate ESG issues into ownership policies and practices.** | • Develop and disclose an active ownership policy consistent with the Principles<br>• Exercise voting rights or monitor compliance with voting policy (if outsourced)<br>• Develop an engagement capability (either directly or through outsourcing)<br>• File shareholder resolutions consistent with long-term ESG considerations<br>• Engage with companies on ESG issues<br>• Ask investment managers to undertake and report on ESG-related engagement |
| **3. Seek appropriate disclosure on ESG issues from the entities invested in.** | • Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative)<br>• Ask for ESG issues to be integrated within annual financial reports<br>• Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact)<br>• Support shareholder initiatives and resolutions promoting ESG disclosure |
| **4. Promote acceptance and implementation of the Principles within the investment industry.** | • Include Principles-related requirements in requests for proposals (RFPs)<br>• Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate)<br>• Communicate ESG expectations to investment service providers<br>• Revisit relationships with service providers that fail to meet ESG expectations |

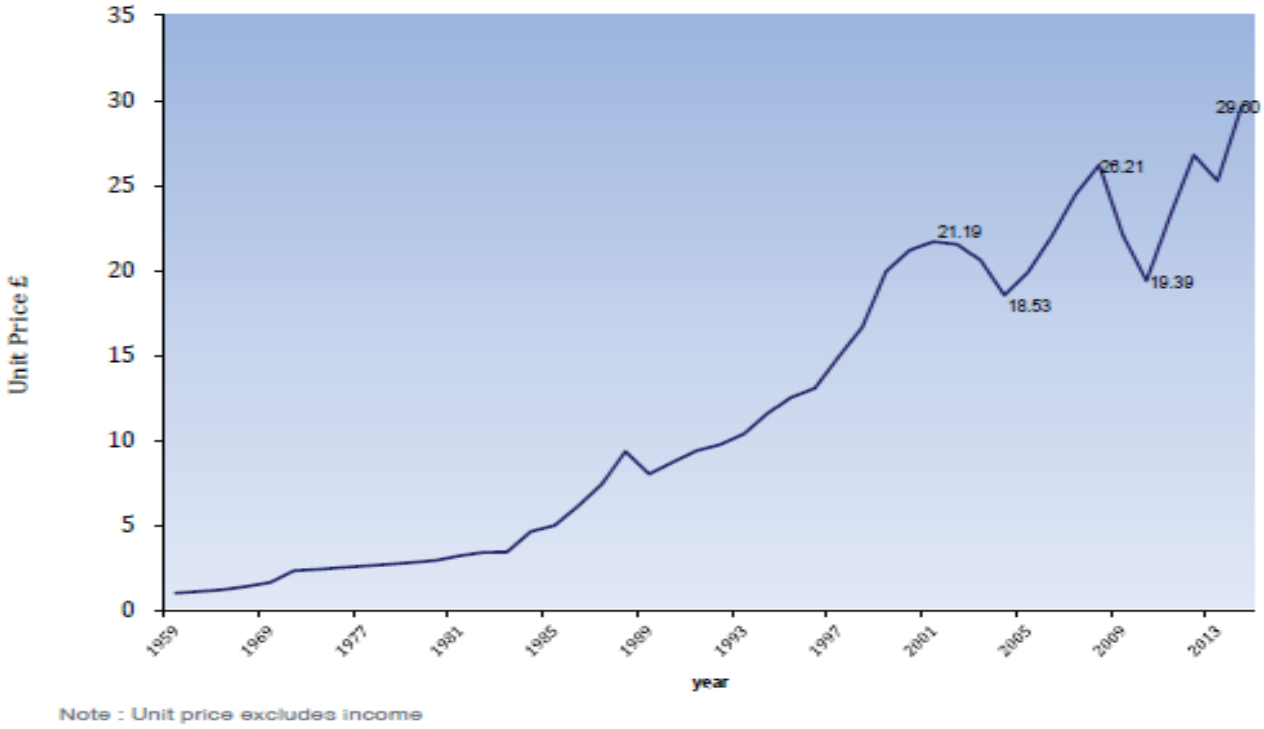
| Six Principles | Possible Actions |
|---|---|
| **5. Work together to enhance our effectiveness in implementing the Principles** | • Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning<br>• Collectively address relevant emerging issues<br>• Develop or support appropriate collaborative initiatives |
| **6. Report on activities and progress towards implementing the Principles** | • Disclose how ESG issues are integrated within investment practices<br>• Disclose active ownership activities (voting, engagement and/or policy dialogue)<br>• Disclose what is required from service providers in relation to the Principles<br>• Communicate with beneficiaries about ESG issues and the Principles<br>• Report on progress and/or achievements relating to the Principles using a 'Comply or Explain' approach<br>• Seek to determine the impact of the Principles<br>• Make use of reporting to raise awareness among a broader group of stakeholders |

# ANNEX 3 – FURTHER DETAIL OF FUND RAISING AND INVESTMENT ACTIVITY

### Endowment Fund History

The Endowment Fund has detailed historical records which show the value of funds endowed, investment returns and areas of expenditure.

The investment of the University's individual endowments is pooled and the individual endowments participate by holding units in the fund and receiving an income distribution on the units held. The capital value of the endowment fund is measured by the calculation of the unit price and detailed records of this calculation are available and show the capital growth of the fund over 50 years. The fund has a long term relationship with Baillie Gifford Fund Managers who have been providing investment management advice since 1968.




### Endowment Fund Highlights

Financial Year to 31 July 2013

- Added £2.5 million to 48 endowments
- 18 of which were from new donors
- Distributed £8.5 million to schools and colleges
- Fund return 21.0%

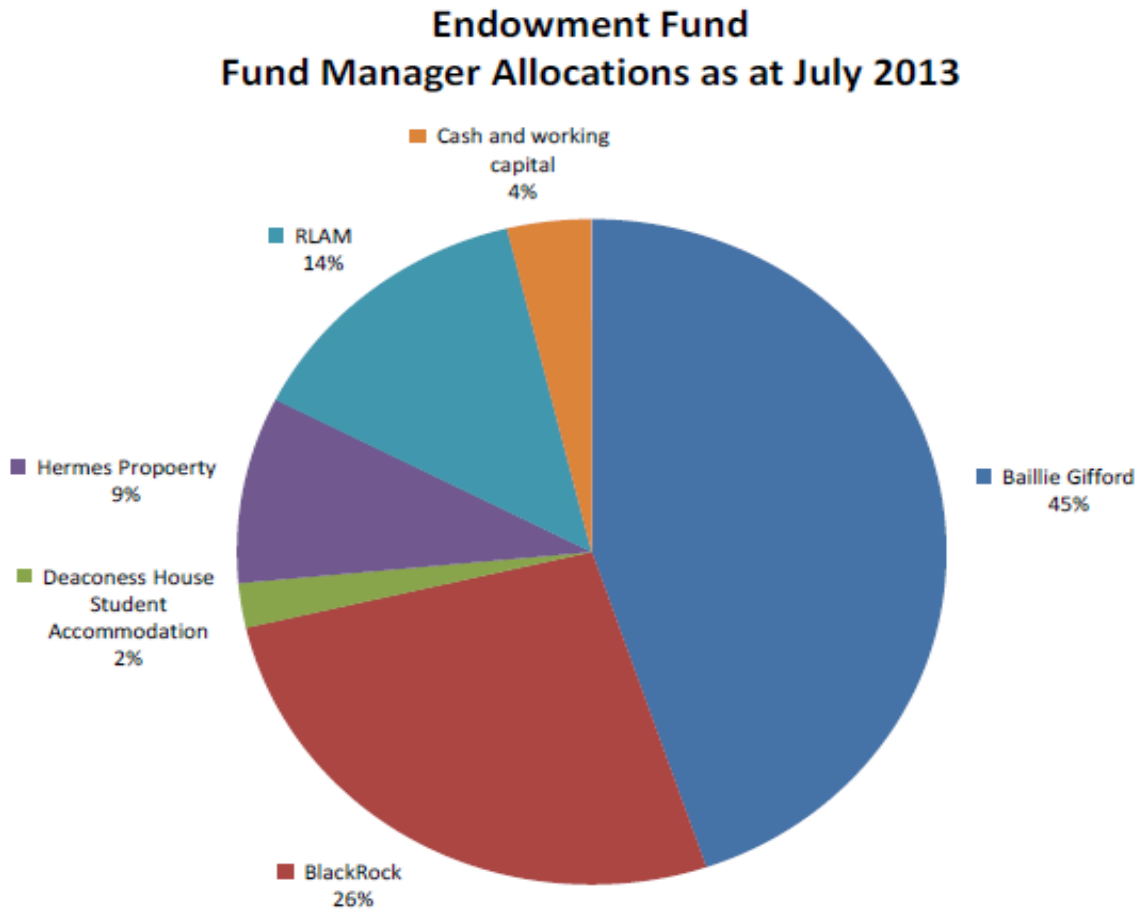
Financial Years 2009 – 2013

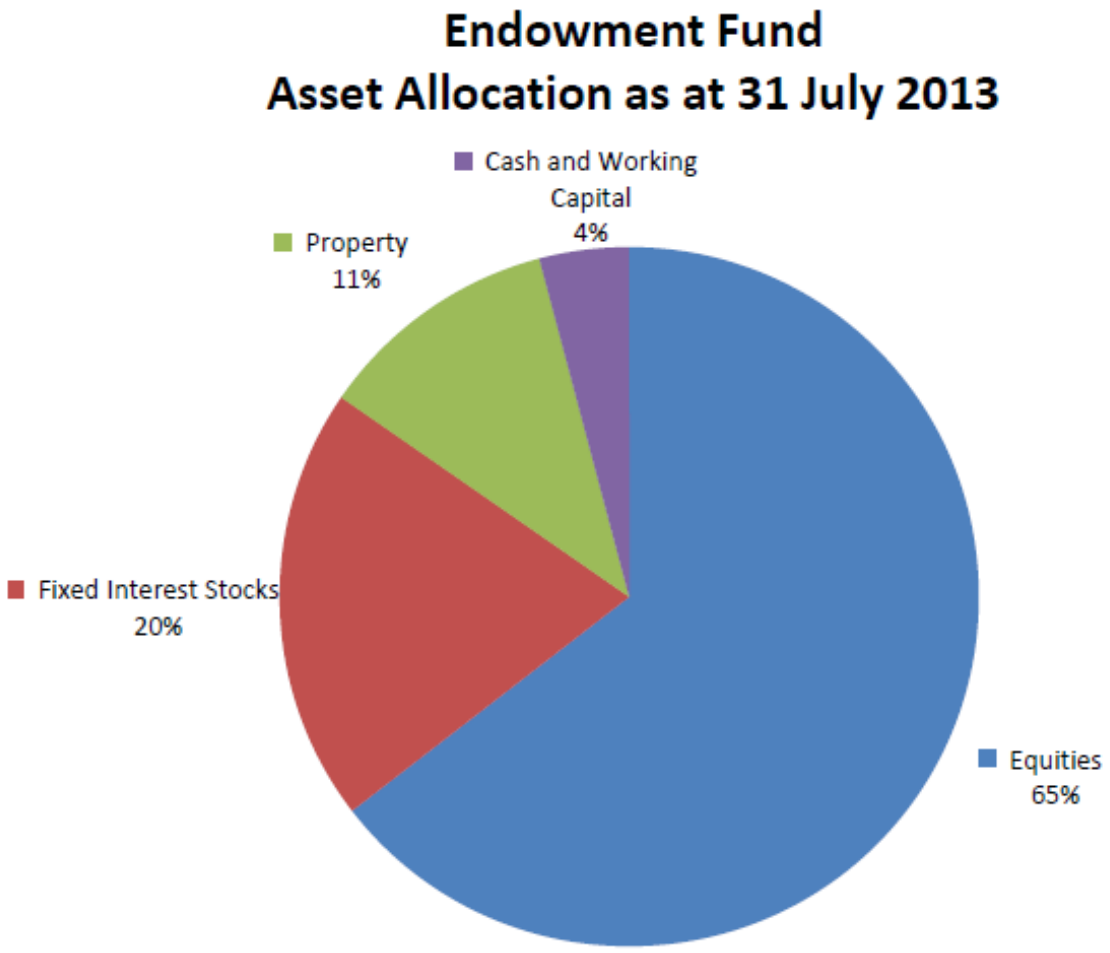
- Added 211 new bequests at a value of £27 million
- Distributed £35.5 million to schools and colleges
- 5-year return is 10.9% p.a.

- 10-year return is 9.3% p.a.

Five Year View

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|---|---|---|---|---|---|
| **Market Value** | £165m | £200m | £236m | £238m | £284m |
| **Return** | -4.3% | 24.5% | 15.1% | 1.3% | 21.0% |
| **Number of Endowments** | 734 | 741 | 749 | 760 | 778 |
| **Annual Expenditure** | £7m | £6m | £6m | £8m | £8.5m |






## Fund Raising Activities

The University acts upon philanthropic opportunities which add significant value to the University's core-funded business. Edinburgh has recently completed a £350M campaign which has provided valuable investment in areas of strategic priority such as student finance, research, teaching facilities and infrastructure such as sport.

Philanthropy can create significant impact in specific areas of interest for the University and for the UK. This is evidenced by a £10M investment by J K Rowling in a Clinical research Facility for Multiple Sclerosis. This facility acts as an interface between clinical trials, patients and blue-skies clinical research and will drive the agenda for better treatments for a wide range of neurological diseases. In addition, there are opportunities within the work of the clinic to develop commercial projects and to collaborate with Industry.

Often, philanthropic donations stimulate new work in a part of the University which is not always funded by traditional sources. The Edinburgh Centre for Carbon Innovation is an excellent example of a new and emerging discipline whose work will stimulate new thinking and new ideas for industry and business. Our £10M centre has been seed-funded largely by philanthropy.

Fundraising in Universities also fills gaps which occur as government funding decreases. Student finance is an increasingly important area and Universities such as Edinburgh are helping to train the workforce of the future by actively raising funding for students with financial need. The University has been able to invest funds in student funding as government changes with regards fees and finance take effect and has raised

£46 million in endowed and gifted funds specifically for student support. This means Edinburgh is able to hold true to its objective of recruiting the brightest and the best students from Scotland, the UK and around the world, and to create an environment where they thrive and their research can bloom.

The mechanics of fundraising in the University begin with alumni engagement through Edit magazine; to seemingly simple mass contact with alumni through direct mail, telethon and engagement events; to highly personalised contact with high net worth individuals and corporates, the University seeks to respond to the wishes of the donor wherever possible and align them to the part of the University that best suits their interests.

Moneys brought into the University through fundraising are passed through the University of Edinburgh Development Trust. This separate charitable body carries out governance procedures on philanthropic funds, and ensures the interests of the donor are reflected. There are strict procedures in place for the handling of funds, and also for the ethical treatment of donors. An Ethics Committee is in place, and stringent due diligence is carried out on significant new donations to ensure the source of the money is legitimate and would be something with which the University would wish to be associated.

## Research

The University has effective due diligence arrangements at School, Support Group, College and University level to help identify problematic projects and/or sponsors. There are a series of existing agreed processes and procedures within the University system to assess the suitability of any proposed research project and to help minimise the possibility of the University being committed to a project that might cause reputational harm. If existing procedures are followed then the likelihood of the University inadvertently entering into a research contract to carry out research on an unacceptable topic should be minimised.

### School and College Research procedures

Each School/Centre is required by the University's Research Policy Group (RPG) to have a robust and appropriate ethical review procedure in place, and it is the responsibility of each College (usually through their Research Ethics or Research Committees) to ensure that this procedure is both in place and is being adhered to. The RPG receives annual reports from each College to assure the University that both they and their constituent Schools and Research Centres remain compliant.

The Head of School/Centre is responsible for ensuring that all applications submitted by their School/Centre have been through their appropriate ethical review process, which includes the nature of the research to be carried out and the 'fit' with the sponsor providing the funding. In the event that a School's Ethical Review Committee was unable to take a view on any situation, the Head of School would consult their College Dean of Research, who may refer the situation to RPG or to the Ethics group chaired by the Principal.

### Research Application Procedures

As a matter of routine ERI Research Support Advisors run a due diligence check of all new funders using the online CheckIt database. If a funder is not listed there, colleagues in the Finance Department run another check using Dun and Bradstreet. These kinds of check however, focus on the financial aspects of the funder, not what their business interests are.

Whilst assisting with research grant applications, ERI staff will ask the Head of School/Centre to sign the IRG form, which is required to be completed before applications are submitted, to confirm the details of the project. One of the requirements of the IRG form is confirmation that the application has been through the School/Centre's ethical review process.

Business development staff from ERI, BioQuarter, Aspekt and other programmes are already embedded in Schools and Colleges and are thus close to the subject matter of proposed industrial research contracts. If any questions arise as to the acceptability of any project, then they can raise this through existing committees and/or refer onto ERI Legal staff.

If any significant concerns arise, then ERI would seek advice from the VP-Research Policy and RPG, or the Ethics Group chaired by the Principal.

### Industry Research Contracts

In the case of research contracts with industrial sponsors, there is an additional level of checking at the contract negotiation phase where the work to be carried out is analysed in more detail by ERI Legal and/or Contracts staff and questions can be raised, and answers sought, before any contract is signed and any obligation is committed to.

## Old College Capital

The Old College Capital group is a wholly owned subsidiary group of the University focused on making early stage investments. Two 'funds' currently exist with a third fund planned for 2013. The original fund, Old College Capital (OCC1), was established in 2010 as a Scottish Limited Partnership with an initial investment of £2M - 50% of which was made available by the University through the re-investment of successful previous equity realisations and 50% from the University's Endowment Fund. OCC1 can make highly selective investments into University spin-out or start-up companies and early stage companies about which the University has a significant depth of knowledge. In many of these companies, the University will already have an equity position. A second fund, Old College Capital Strategic Investments (OCCSI) was established in 2012 as a Scottish Limited Partnership with an initial investment of £2.5M from the University's Endowment Fund. OCCSI has made one investment, committing its full reserves, into Rock Spring Ventures EU, a life-sciences focused venture capital fund targeted at early stage companies including those emerging from the University's BioQuarter initiative.

A highly professional governance structure exists for these funds with a Board and Investment Committee comprised of experienced investment professionals and senior University staff. Both funds make their investment decisions purely on commercial considerations and whilst they will present broad synergies with the commercialisation and company formation ambitions of Edinburgh Research and Innovation and the University, the funds run with the aim to generate optimal return for its investors. All investment decisions are taken with that clarity. Work is now underway to secure a third fund (OCC2) which will pick up the activity of OCC1 once it is fully committed.