The University of Manchester

Draft Revised Policy for Responsible Investment - January 2020

Summary
This Policy sets out the University's approach to Socially Responsible Investment. We propose a major change to decarbonise the University's entire investment portfolio through staged disinvestment based on carbon intensity as well as fossil fuel reserves & extraction, with immediate effect if the consultation results in support. We believe that this is a more radical, comprehensive and justified approach than disinvesting based on fossil fuel extraction.

1. Introduction

Traditionally, investors may not have considered how the public companies in which they invest make their profits as long as they are operating within the law. However, the University, consistent with its values and as set out in its strategy 'Our Future', is fully committed to acting in a socially responsible manner. This policy sets out the principles for Responsible Investing (RI) that includes consideration of Environmental, Social and Governance (ESG) issues relating to all investment decisions.

This policy does not detract from
a) The fiduciary duty of the University's Board of Governors, as Trustees, to over long term, maximise returns from the University's investments.
b) The University's commitment to academic freedom enshrined in its values and, in this context, does not define the parameters for its research and business relationships.

2. Environmental, Social and Governance (ESG) Issues

The University is particularly concerned about the following key ESG issues and will continue to adopt investment strategies that seek to minimise or, ideally, eliminate investments in companies with corporate behaviour leading to:

- Environmental degradation and climate change (more detail in Section 3 of this Policy)
- Manufacture of controversial weapons or armaments deemed unacceptable to the international community because of their indiscriminate effects, undue suffering and disproportionate impact they have on civilian populations.
- Armament sales to military regimes
- Human rights violations
- The institutionalisation of poverty through discriminatory market practices
- Racial or sexual discrimination
- Tobacco production, cultivation and manufacture
- The exploitation of workers
- Giving or receiving of bribes

3. Decarbonisation: Action on climate emergency – zero carbon transition by 2038

Climate change is probably the most important issue facing the world today, and the University recognises the climate emergency declared by the UK Parliament and other nation states. The University fully supports the climate targets and ambition agreed in the 2015 Paris Agreement. As an institution, the University has aligned itself with the City of Manchester 2038 zero carbon target outlined in "Manchester Zero Carbon Framework 2020-2038" and embedded this target the University's new strategy ('Our Futures'). The University in addition, has a strong carbon reduction focus in its research portfolio and will be strengthening this further to aid low carbon transition in local and global economy.

Consistent with this, the University explicitly commits in this Policy to actively decarbonise its investments so that its investment portfolio reaches zero carbon in 2038. The chosen target is ambitious in comparison to national level targets and actions of other organisations which have focussed largely on one aspect of carbon emmisions, and ensures that the University investment portfolio will undergo a significant transformation over the coming years as a result. This transition will be a key focus of the Board of Governors.

As actions to deliver on the UK's climate change goals accelerate, the University expects carbon measurements and carbon monitoring methodologies for investors to significantly improve in the near future (coverage, accuracy and insight). Meanwhile, the University recognises the current state of practice and commits to periodically review the suitability of its approach that at present uses carbon intensity rather than absolute carbon dioxide emissions, as an indicator. Furthermore, the University commits to staying aligned with both a carbon budgeting approach, as well as any ratchet mechanisms applied to climate mitigation at the national level (for example prompted by outcomes from annual UNFCCC Conference of Parties meetings), if such ambition was to exceed the current 2038 commitment.

The University sets the base year of portfolio carbon measurement to 2019 and aligns its intermediary target setting horizon with the City of Manchester and the University, as an institution, as follows:

- Immediate term 2019-2022
- Medium term 2023-2027[1]
- Long term 2028-2038.

For the **Immediate term 2019-2022** the University sets the following decarbonisation targets and commitments:

1) To monitor and guide decarbonisation and allocations to sustainable opportunities, the University will adopt G20 Financial Stability Board's (FSB) Task Force for Climate Related Disclosures (TCFD) supplemental guidance for asset owners.

2) Reducing exposure to carbon intensive companies as measured by Weighted Average Carbon Intensity[2], an indicator of current climate-related risks, in the public equity allocation by **30%** compared to the base year.

3) Reducing potential emissions from fossil fuel reserves[3], an indicator that focusses on emissions that could be generated if proven and probable fossil fuel reserves owned by the companies in the University portfolio

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[1] Immediate Term & Medium Term periods also align with the 3rd and 4th nationally legislated carbon budget periods (respectively) under the UK Climate Change Act (2008)

[2] Weighted Average Carbon Intensity (tons CO2e / $M sales). Calculated based on Scope 1 and 2 emissions. Does not relate to the Fund's ownership share and hence serves as an indicator of potential climate-related risks. Importantly facilitates comparison with non-equity assets. FSB Taskforce for Climate-related Disclosures (TCFD) recommended metric for asset owners indicating portfolios exposure to carbon-intensive companies.

[3] Potential Emissions (MtCO2). The total potential carbon emissions of the coal, oil, gas and unconventional oil & gas reserves owned by a company. It is computed as the sum of the potential carbon emissions of the total coal, total oil, total gas and total unconventional oil &gas reserves (the shale oil reserves, shale gas reserves, and oil shale & tar sands) owned by a company.

were burned and emissions released in the atmosphere, in the public equity allocation by **99%** compared to the base year.

4) The University, guided by our investment advisors, will form a view on decarbonisation of all assets classes beyond public equities by the end of 2022 and will develop mechanisms to evaluate progress.

The Board of Governors expects to review continuously, opportunities across all asset classes to reduce the University's reliance on carbon sensitive assets by considering the potential financial (risk and return) impacts of both the transition to a low-carbon economy and the physical impacts of different climate outcomes, as well as investing into climate solution opportunities arising from the low carbon transition in the local and the global economy.

4. Influencing Corporate Behaviour

As an investor, the University has three means of bringing pressure to bear on corporate behaviour:

- *Judicious acquisition,* where agreed normative criteria are applied by the University's Investment Managers when making investments.
- *Divestment,* where the University's Investment Managers may divest of funds where the company is in fundamental breach of normative standards.
- *Stewardship,* through which the University's Investment Managers influence the ESG related strategies of the companies in which the University is a stakeholder both via proxy voting and investor engagement.

5. Investment Charter

The University of Manchester will use its best endeavours to ensure that it operates its Investment Policy in a way that is consistent with the objectives described in Sections 1, 2 and 3. University will mandate Investment Managers adhering to this and advise Investment Managers of the following requirements:

Progressive decarbonisation

- The University will work with Investment Managers to implement a strategy that will result in the University achieving targets outlined above in the section "Decarbonisation: Action on climate emergency – zero carbon transition by 2038".

Judicious acquisition

- The University will include expertise to consider ESG factors and provide good investment stewardship, in the investment context, as explicit selection criteria when awarding Investment Manager mandates. Furthermore, and as a result, the University requires all Investment Managers and other service providers, like Investment Consultants, to incorporate ESG factors, including zero carbon transition targets as defined above, into their advice and selection criteria of investments.

Divestment

- Where a company in which the University currently holds shares does not respond positively to concerns about its practices and is deemed to be in fundamental breach of acceptable standards of ethical and/or environmental practice, where directly practical, the University will instruct its Investment Manager to divest of shares in that Company and require the Investment Manager to inform the Company of its reasons for doing so.

- Furthermore, the University has outlined in the Section 2 exclusion criteria that Investment Managers need to adhere to and if any violations of the criteria are detected divestment must ensue as soon as practical.

Stewardship

- The University will work with Investment Managers who engage with companies where ESG issues are a concern, provide proxy voting and report to the University on their stewardship activities. Where the University invests in any company that does not appear to be pursuing sound ethical business practices and/or displaying appropriate environmental responsibility, the Investment Managers will seek to persuade that company to operate in a more socially and environmentally responsible manner.

6. Reporting and Review

The University will make available on its website a retrospective "snapshot" report listing all shareholdings every quarter. There will also be an annual report on adherence to this Policy for Responsible Investment including target measurements outlined under Section "Action on climate emergency – zero carbon transition by 2038, as well as reporting on stewardship activity undertaken by the University's Investment Managers (including both voting and engagement activity).

The University will review the Policy for Responsible Investment every two years.