

## Explanation of investment decision regarding Caterpillar

The University's Policy for Socially Responsible Investment states that the University will adopt investment strategies that seek to minimise or, ideally, eliminate, irresponsible corporate behaviour leading to:

- Environmental degradation
- 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

In order to minimise irresponsible corporate behaviour leading to these ESG issues, the University requires its investment managers to incorporate ESG factors into their selection criteria, engage with companies where ESG issues are a concern, seek to persuade companies to operate in a more socially and environmentally responsible manner and report to the University on their engagement activities. Only where a company 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, will the University divest itself of shares in that Company and require the Investment Manager to inform the Company of its reasons for doing so.

The University's investment manager that took the decision to invest in Caterpillar confirmed that the MSCI ESG rating at September 2017 was within the top 25% of rated companies within the industry (Construction and Farm Machinery and Heavy Trucks). Despite the relatively high ESG rating, the University's Investment Sub Committee asked the investment manager to engage with Caterpillar regarding concerns that an external stakeholder had raised around potential human rights violations relating to the use of its bulldozers by Israeli Defense Forces (IDF) in the West Bank and Gaza.

The investment manager reported back to the University that Caterpillar's stance continues to be that it does not have the practical ability or the legal right to determine how its products are used after they are sold and that it does not have plans to boycott sales to any country that is not sanctioned by the international community. The investment manager discussed management's approach to improving human rights, striving to be a leader in corporate responsibility and working towards the United Nations Sustainable Development Goals.

Investment Sub Committee considered the report from the investment manager and was satisfied that the company had responded positively to the concerns raised. The Committee noted that the main intended use of Caterpillar's products is as construction machinery, not armaments and defence, and that the company has a limited ability as a supplier to control the use of its products by

end customers. The Committee therefore considered that Caterpillar was not in fundamental breach of what the Committee considers to be acceptable standards of ethical and/or environmental practice so the University would not instruct its investment manager to divest from the company on the grounds of ESG concerns.