

# The University of Manchester

## Revised Policy for Responsible Investment – May 2020

### Summary

This Policy sets out the University's approach to Socially Responsible Investment. This revision specifically addresses the University's investment position in response to the climate crisis. We propose a major change to decarbonise the University's entire investment portfolio through staged divestment based on carbon intensity as well as fossil fuel reserves & extraction. We believe that this is a more radical, comprehensive and justified approach than divesting based on fossil fuel extraction only.

In summary, the University commits to:

1. Almost complete (99%) divestment in fossil fuel extraction, and 30% reduction in weighted average carbon intensity in the public equity allocation in the investment portfolio by 2022.
2. Reduction in weighted average carbon intensity of the remainder of the public equity allocation in the investment portfolio to a net zero target by 2038 or earlier.

### 1. Introduction

The University, consistent with its values and as set out in its strategy 'Our Futures', 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 the 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.

The University's investment portfolio is made up of endowment funds, i.e. gifts from donors intended to be held on trust to generate a return, usually for specific purposes within the University. The University invests these funds across a range of asset classes, including public equities, private equity, property, cash, diversified growth funds and pooled funds. The University has set out its Investment Beliefs and Objectives, which are reviewed every year. The University's Investment Sub Committee, chaired by a lay member of the Board of Governors and made up of lay members, members from the University's Senior Leadership Team and with representation from the Students' Union, reports to the Finance Committee. Responsibilities include appointing Investment Advisors and Investment Managers and monitoring performance, considering changes in investment strategy and target asset allocations, identifying and assessing new opportunities arising and reviewing compliance with the Policy for Responsible Investment.

### 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, including cluster munitions, landmines, biological and chemical weapons, nuclear and depleted uranium weapons
- Tobacco production, cultivation and manufacture

- Human rights violations
- The institutionalisation of poverty through discriminatory market practices
- Racial or sexual discrimination
- The exploitation of workers
- Giving or receiving of bribes

Where possible, or where specific criteria are defined (e.g. decarbonisation) in the investment process, exclusionary screening criteria will be used to address the above issues.

Where it is not possible to define screening criteria for a particular issue which can be used by investment managers, a monitoring and stewardship approach will be adopted, whereby investment managers will be expected to report quarterly on ESG issues, engagement and voting activity.

### **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 in 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 ‘long term’ target). The chosen target is ambitious in comparison to national level targets and actions of other organisations which have focused largely on one aspect of carbon emissions, 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 Finance Committee, reporting to the Board of Governors.

For the ‘**immediate term**’ **2019-22** the University sets the following decarbonisation targets and commitments:

- 1) Reducing potential emissions from fossil fuel reserves<sup>1</sup> in the public equity allocation by 99% compared to the base year.
- 2) Reducing the Weighted Average Carbon Intensity<sup>2</sup> across the public equity allocation in the investment portfolio by 30% compared to the base year.
- 3) The University will adopt G20 Financial Stability Board’s (FSB) Task Force for Climate Related Disclosures (TCFD) supplemental guidance for asset owners.

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<sup>1</sup> Potential Emissions (MtCO<sub>2</sub>). 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.

<sup>2</sup> Weighted Average Carbon Intensity (tons CO<sub>2</sub>e / \$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.

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.

5) The University will periodically review the suitability of its approach and targets, for example in view of any commitments to exceed the current 2038 zero carbon target or as a result of any improvement in carbon measurement and monitoring methodologies for investors.

6) The University will review opportunities across all asset classes to reduce the University's reliance on carbon sensitive assets as well as investing into climate solution opportunities arising from the low carbon transition in the local and the global economy.

7) Before the end of the immediate term in 2022, the University will set new targets for the medium term (2023-27) which enable transition towards the long term target of net zero carbon emissions by 2038.

#### **4. Influencing Corporate Behaviour**

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

- *Judicious acquisition*, where the University's Investment Managers incorporate ESG issues into the investment decision making process, including the use of screening criteria.
- *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. The University will mandate Investment Managers adhering to this and advise Investment Managers of the following requirements:

##### *Progressive decarbonisation*

- The University will select Investment Managers and require them to implement a strategy that will result in the University achieving targets outlined above in Section 3.

##### *Judicious acquisition*

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

##### *Divestment*

- Where the University has agreed exclusion criteria that Investment Managers need to adhere to, if any violations of the criteria are detected divestment must ensue as soon as practical, or as in the case of decarbonisation, within the timeframe defined in the Policy.
- In other situations, 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.

### Stewardship

- In addition to the specific exclusionary criteria for acquisition and divestment, the University will expect its Investment Managers to engage with companies to promote high standards or conduct in accordance with this Policy, provide proxy voting and report to the University on their stewardship activities.
- Where the University holds investments 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 and to improve corporate disclosure.

## 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 3, as well as reporting on stewardship activity undertaken by the University’s Investment Managers.

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

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Equality impact outcome:	n/a
Related Statutes, Ordinances, General Regulations:	Statute XI(i)
Related policies:	Financial Regulations 2.6, 8.8 and 10.28
Related procedures:	None
Related guidance and / or codes of practice:	None
Related information:	None
Policy owner:	Director of Finance
Lead contact:	Head of Tax and Financing