

## Business Committee of the General Council

### Submission to the Consultation on Responsible Investment Policy

#### General comments

The Business Committee of the General Council was pleased that the consultation was opened up to allow members of the General Council to submit their views individually.

We are also grateful for the extension given to submit this response from the Business Committee. In producing this response to the consultation, we are not seeking to summarise the views of individual General Council members, but to offer the following more general observations and comments. These are framed within the recognised role of the General Council, both in terms of its statutory role and as a 'critical friend' concerned to enhance the wellbeing of the University. Accordingly, we do not comment on matters of detail that are the responsibility of the University executive and limit our responses to matters of overall policy and approach.

#### 1. Clarity, consistency and transparency

In our review of the relevant materials, we found that those documents relevant to the proper understanding of the University's investment approach and its current portfolio were not always easy to access. Moreover, once accessed, documents are not always consistent with each other, or with public statements issued on behalf of the University, and that not simply on minor issues.

We would like to illustrate the point: The **consultation document** states that the current investment policy provides '**mandatory requirements**' for the assets managers investing on behalf of the University. Reference is made to progress having been made in embedding Environmental, Social and Governance (ESG) approaches, including divestment from all fossil fuels. Yet in the **Statement of Investment Principles**, paragraph 1.6, it is only stated that the University '**would strongly prefer**' that ESG are among the factors which investment managers will take into account and that this policy is implemented on a 'best endeavours' basis.

We recognise why some flexibility is desired, but this should not be through lack of clarity or consistency.

To ensure that documents fit together well and convey the same consistent message, we think it would be helpful for:

- All the material relevant to the University's investment policy and its investments to be set out in one easily accessible place, both in relation to the investment policy overall (including operational elements such as the expected rate of return, spread of risk, quality ratings) and to the responsible investment aspect of it.
- The presentation of the University's investment policy and its outcomes are treated as part of the University's public interface, with the material being presented in a clear straightforward, verifiable, and attractive way (like, for example, the University's Annual Report and Accounts).

## **2. Clarity on the relevance of University's investments and the rationale for investment returns**

We believe it would be beneficial for there to be a clearer and more proactive approach to explaining the make-up of the University endowment fund (and any other funds invested by the University), and the benefits the University is able to deliver as a result of its investment portfolio. We did not find the annual Endowment Fund report very informative in that respect, providing only very basic facts and figures.

The University community would benefit from knowing clearly, every year, not only what particular levels of return were achieved, but for what purposes the investment income was used - for example, how many scholarships were supported or projects carried out. The wider credibility of how the investments are managed depends not just on the extent of the returns, but how they are used and their impact on our community and more widely.

The existing governance rules for the Investment Committee should be complied with and kept under review, to reflect best practice. Although the rules for tenure clearly state that membership is for 3 years with the option of extension for another 3 years at the discretion of Court, we were surprised to see from the University website that several members have been on the investment committee for much longer than this.

## **3. Long term impact and views**

As a long-term investor, the University is able to take a long-term strategic view in its approach to investment policies and practices and can align these to the core values of a leading international institution for learning and research. Accordingly, the University has a role to play in providing stewardship and leadership for our society and our planet.

While there will always be a range of views within the University, there are certain core values widely shared that could be spelled out more clearly in the investment arena and assist our asset managers in delivering in accordance with these values.

To demonstrate these values, the University should consider:

- the extent to which it could make more use of proxy voting at company AGMs (and explore our asset managers' own record of proxy voting);
- asking our asset managers to present us with ideas how to make our portfolio more in line with our overall values as expressed in Strategy 2030 and related documents; and
- how well our asset managers' values are aligned with ours.

## **4. Getting the best out of University's asset managers**

Although substantial at over £700m, we understand the size of the University's investment portfolio may mean it would be difficult to justify having an in-house investment management team. We consider, though, that more could be asked of our external asset managers in terms of presenting us with solutions that work best with our overall investment approach and our values. The University should be clear about its values and needs, ensure its investment processes are transparent and capable of effective scrutiny, and expect performance from its asset managers in line with our overall values and our needs. That type of approach does not mean that the University should be asking of its asset managers to do 'more' than they are doing now (leading perhaps to unintended consequences, such as higher management fees) – but rather being clear on what the University wants and making sure it gets what it (already) pays for.

## 5. Disinvestment Campaigns

It was unfortunate that the consultation was announced **after** a high-profile occupation of Old College Green by those campaigning for the University to disinvest in companies implicated in supplying material for the production of weapons or systems used in the Israel/Gaza conflict. This could give many the impression that the consultation was issued in response to this disinvestment campaign and create expectations on the outcome, although we understand that a review of the Responsible Investment Policy had been in preparation long beforehand.

The inherent tension between protest groups demanding immediate action, on the one hand, and the complex multi-layered internal decision-making processes within the University over changes in investments, on the other, presents a significant challenge to the University executive. This is exacerbated when other universities facing similar situations appear to be able to act more decisively.

We are entering a phase of political instability and global tension on many fronts. The conflicts in Israel/Gaza/ Lebanon precipitated the recent occupation of Old Quad Green and this conflict continues and expands. Moreover, there are many other potential sources of controversy, for example, Russia/Ukraine, tension between mainland China and the West, signs of alienation of countries in Africa and the global South from the global North. All of these and others have the potential to affect perceptions of the University's investment policy and could lead to further calls for disinvestment and campus action, as well as having implications for recruitment of students and staff.

To help deal with this more challenging situation internationally, we would suggest that:

**a. There should be more regular reviews of investment policies.**

The existing policy was approved in 2016 and had not been updated, although there had been significant subsequent changes, such as disinvestment from oil and gas.

**b. The University should seek to be better prepared to deal with other future disinvestment campaigns** and be better placed to demonstrate a more proactive approach, rather than appearing largely reactive.

This could involve:

- Horizon scanning to anticipate future disinvestment campaigns which reflect changing ethical expectations within student and academic communities;
- drawing on expertise within Edinburgh University's academics (e.g., potentially Edinburgh Business School) to evaluate and advise on the merits (or otherwise) of disinvestment campaigns;
- clarity (both internally and externally) about where responsibility and authority lie to deal with disinvestment campaigns. (It is not self-evident who within the senior management team is ultimately responsible for investment policy management and scrutiny.)

We also believe that if the recommendations we have made are adopted in relation to providing greater clarity and consistency in the description of policies, and more transparency in reporting the benefits that the investment income is used to support, this will improve the ability to respond to disinvestment campaigns.

30 September 2024

## Consultation Questionnaire

We respond below to the specific questions set out in the consultation questionnaire.

### **1. Do you support the proposal to incorporate socially positive investment into the remit of the responsible investment policy?**

Yes

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### **2. Do you have further comments on how we can incorporate socially positive investment into our investment activities?**

We were surprised to find out that, already some years into the existence of the £8m Social Investment Fund, it is only now that its performance is being assessed in more detail.

We consider that **before** further funds are committed to socially positive investment, clear KPIs should be set for how the performance of those funds is going to be assessed, and how frequently the performance will be reviewed. Those KPIs, in our view, should include both pure financial indicators, as well as ways of measuring the 'socially positive' impact of the investments.

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### **3. Do you support the proposal to align our investment portfolios with a 1.5 decarbonisation pathway?**

Yes

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### **4. Do you have further comments on the proposal to align our investment portfolios with a 1.5°C decarbonisation pathway?**

We note that the University hosts some of the UK-relevant high-energy consuming equipment at its premises. Some thought should be put into how such hosting – of wider relevance to the country as a whole – should be treated in any future thinking and reporting of progress on decarbonisation pathway.

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### **5. Do you support the proposal to measure carbon impact metrics annually, as outlined by TCFD best practice guidance?**

Yes

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**6. Do you have further comments on the proposal to measure carbon impact metrics annually?**

No

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**7. Do you support the proposal to incorporate the protection of nature and biodiversity into the Responsible Investment Policy?**

Yes

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**8. Do you have further comments on the proposal to incorporate the protection of nature and biodiversity into the Responsible Investment Policy?**

We would refer to our comments under point 4 above, on requiring advice and performance from asset managers and taking into account when selecting asset managers how well they manage the protection of nature and biodiversity through their investments.

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**9. Do you support the proposal to explore an Active Ownership approach in our new Responsible Investment Policy?**

Yes

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**10. Do you have further comments on the proposal to explore an Active Ownership approach to our investments?**

As suggested in our opening remarks, we consider that the University should be more robust with its asset managers. The onus should be on the managers to present the University with ideas on how best to act in line with our values and our long-term investor status.

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**11. Do you support our commitment to review our definition of 'controversial weapons' in the context of our Responsible Investment Policy?**

Yes

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**12. Do you have further comments on the definition of ‘controversial weapons’ we should use in our Responsible Investment Policy?**

We understand that the internal expert group set up to advise on this aspect has reported and we defer to that advice, which we would wish to see published when the results of this whole consultation are issued.

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**13. Do you have further views on definitional issues associated with armaments?**

This is an evolving issue. We should be clear on our intent and then ask our fund managers to provide us with a range of options how to implement that intent in the most satisfactory way.

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**14. Do you support our commitment to review our responsible investment policy to ensure that our investment activities are appropriate in an international context?**

Yes

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**15. Do you have further comments on how we can ensure that our investment activities are responsible in an international context, in accordance with our values and the UN Principles for Responsible Investment?**

The University has already had a working group devoted to this issue and we expect it to produce a report (which, like the report on the definition of ‘controversial weapons’ we would like to see published). We would like to see the University committing itself to a set of principles/resources which would ensure it upholds human rights and does not act in breach of international law. That commitment will need to be backed up by an effective scrutiny mechanism, including reporting by the asset manager and the quarterly reviews of their performance.

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**16. Do you support our commitment to improve the transparency of our investments?**

Yes

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**17. Do you have further comments on how we can improve the transparency of our investment activities?**

We have set out our proposals in relation to this in sections 1 and 2 of the General comments given above.

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