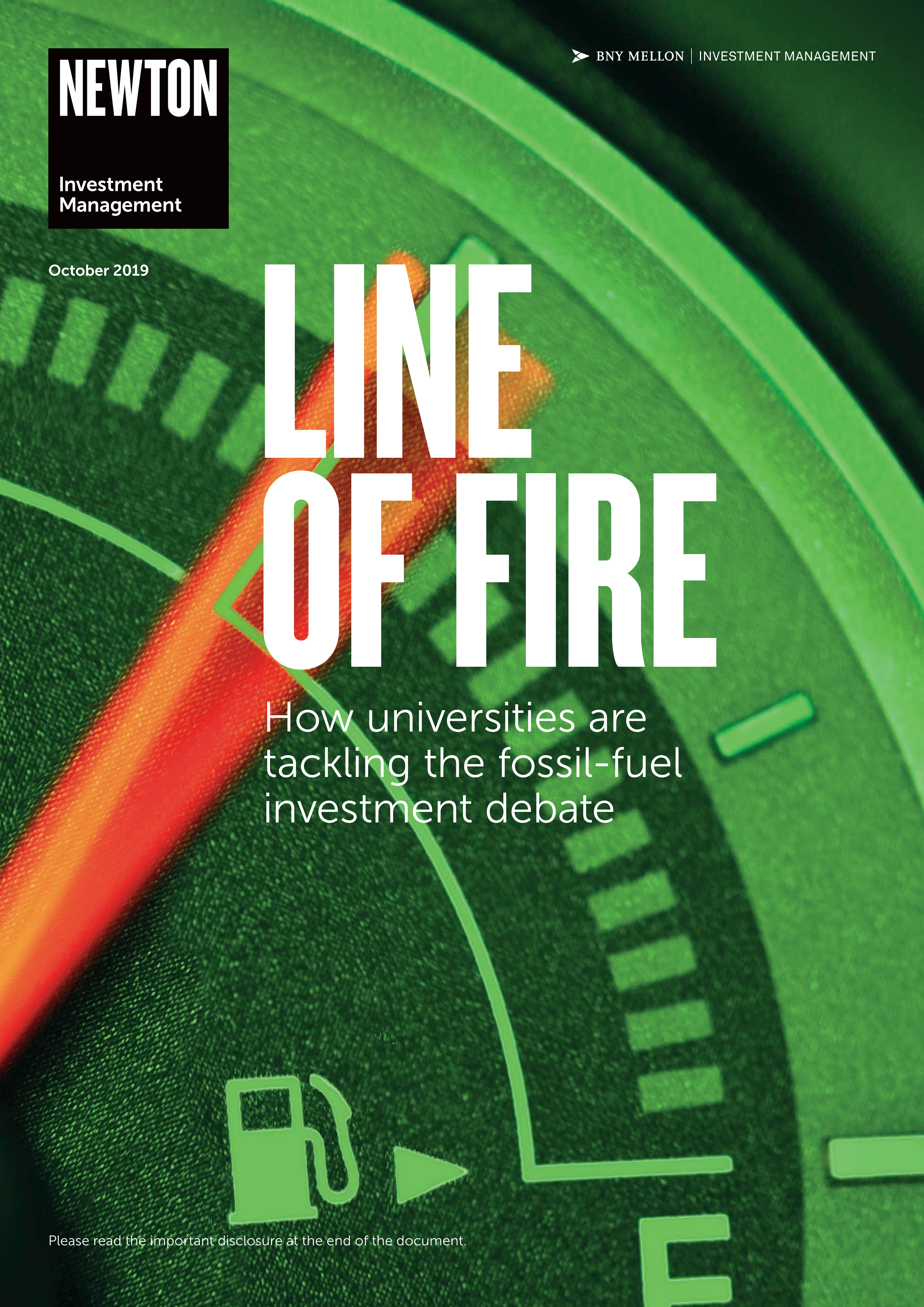

NEWTON

Investment Management

BNY MELLON | INVESTMENT MANAGEMENT

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LINE OF FIRE

How universities are tackling the fossil-fuel investment debate

Please read the important disclosure at the end of the document.

CONTENTS

LINE OF FIRE

How universities are tackling the fossil-fuel investment debate

As awareness of climate change has grown in recent years, fossil fuels have been cited as a major cause of global warming, and investing in them has become an increasingly contentious issue.

One area which has arguably seen the most strident criticism is the education sector, where student groups have increasingly voiced their opposition to investments deemed unsustainable, with fossil-fuel extraction companies a key target.

This article looks at what student groups are asking of their finance staff, how the latter have responded to this increased scrutiny, and how investments have evolved over time to become more sustainable. It also examines some of the investment options and solutions available to universities as they look to balance their fiduciary requirement to make meaningful returns for their institutions with the goal of becoming more sustainable investors.

SUMMARY

Using information on sustainable investment initiatives and policy at UK and Irish universities, alongside interviews undertaken with college finance directors, bursars and the students who engage with them, this article examines the issues in a number of ways:

- It looks at how environmental issues have risen to the top of the agenda across campuses and in many investment committee meetings.
- It reveals how different universities are responding to the challenges presented by fossil-fuel investments within university and college investment funds and endowments.
- It examines how different universities have responded to student demands, and the degree to which they have tried to bring about a greater degree of transparency and communication between students and finance professionals in relation to the investment process.
- It shows how different parties have sought to create a better understanding and working relationship to tackle the issue of climate change via a series of case studies with a cross-section of bursars, finance directors and students.
- Finally, it summarises the sustainable and responsible investment solutions which may be worth consideration by universities seeking to boost the sustainability and reduce the carbon footprint of their investments.

The rise of climate-change awareness

Like many parts of the corporate world, colleges and universities are facing growing scrutiny over the assets and companies in which they invest. Just as interest in responsible or sustainable investing has increasingly caught the imagination of the general public in recent years, as we discuss in our paper *The evolution of responsible investing*, students have – and are – playing an influential role in challenging institutions' finance staff and their respective investment managers to be more transparent and accountable for what they invest in.

Echoing what activist environmental groups and high-profile campaigners such as Extinction Rebellion and Greta Thunberg are doing in the political arena, many socially and environmentally aware students continue to try to make their voices heard by their university bursars, finance directors and investment managers in terms of investments that they consider bad or harmful from a socially responsible or environmental perspective.

A number of areas can spark debate or controversy: investments in so-called 'sin stocks' such as armaments, gambling or tobacco; investments in countries or companies with a track record of human rights abuse or chronic poor governance; and investments that are deemed harmful to the environment. While all these factors can cause friction, (and potentially fraught conversations between bursars and students), the issue that has grown to greatest prominence over the last few years is the third of these – investments in fossil-fuel extraction companies deemed harmful to the environment.

> "Students have – and are – playing an influential role in challenging institutions' finance staff and their respective investment managers to be more transparent and accountable for what they invest in."

The surge of interest in sustainability and 'greener' campuses has sparked a number of initiatives for universities to become more sustainable places, and perhaps, inevitably, attention has turned to where universities are investing their money. In some cases, the pressure exerted has contributed to full or partial divestment from fossil fuels. In others, educational establishments have sought to make their investments more environmentally sustainable via investing through managers who seek to engage with fossil-fuel companies to lower their carbon footprint over time.

The responses are reasonably diverse: from those in the initial phase of engagement between students and finance staff, through to those who have moved to a more sustainable investment approach, to scenarios in which full or partial divestment from fossil fuels has been the end result. Reading them may provide a useful reference point for finance directors and bursars who face similar scenarios.

Climate change rises up the agenda on campus

The last few years have seen a huge increase in awareness of the significant contributing role played by fossil fuels in accelerating global warming across much of the planet. We have seen the warnings and activities of non-government environmental activist groups like Greenpeace and, more recently, Extinction Rebellion, gain greater prominence in the media. In the UK, at the student level, the National Union of Students (NUS), which represents the interests of more than seven million students, has been tracking students' attitudes to climate change since April 2014.

Using a nationwide tracker initially developed by the UK government's Department of Energy and Climate Change (now the Department for Business, Energy and Industrial Strategy), it has shown how the subject has continued to gain traction with students. Its latest survey from March 2019 found that more than nine in ten student respondents were fairly concerned or very concerned about climate change, versus a lower relative concern among the general UK population, where the equivalent figure was 71%.[1]

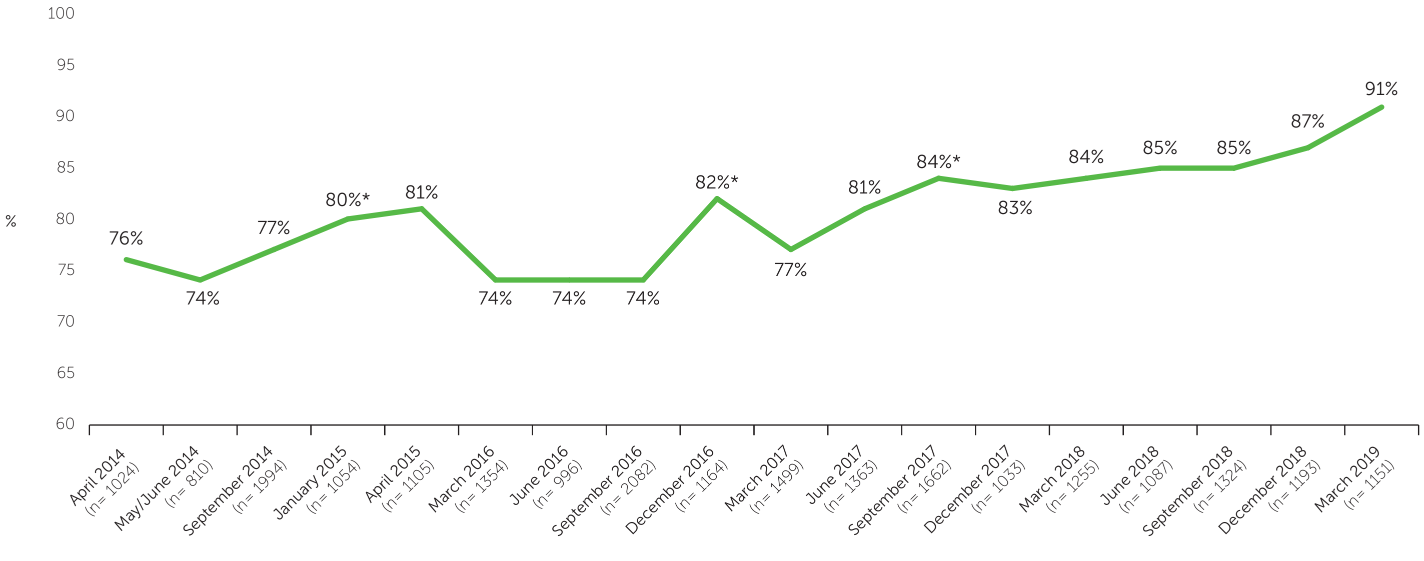
With concerns about global warming and the looming threat of potentially irreversible damage to the planet becoming ever louder in the media and in the political environment, it is little surprise that the issue has led to an increased rise in activism on campuses too.

A number of bodies have been set up to push a greener agenda at UK universities, such as People & Planet, Oxford Climate Justice Campaign, Positive Investment, DivestInvest, and the Environmental Association for Universities and Colleges (EAUC), which represents institutions with over two million students and nearly 400,000 staff. In October 2018, the EAUC arranged for five UK university bodies – University of Reading, Northumbria University, University of Winchester, Newcastle University and University of Nottingham – to sign up to commit to reducing their carbon emissions by 30% by 2020/21.

The NUS also held its first teach-in to promote the United Nation's Sustainable Development Goals (SDGs) in March 2018, at which a pledge was taken by 255 teaching staff from 32 institutions to ensure that SDGs were incorporated within courses affecting 16,835 students. The top four agreed common goals were responsible consumption, climate action, sustainable cities, and good health. University of the West of England, Nottingham Trent University and Canterbury Christ Church University were the three institutions with the highest number of pledges.[2]

Of course, many activist groups and institutions have gone further, and, in some cases, partial or full divestment from fossil-fuel investment has been the result – often after

Fig 1: **Student concerns about climate change have risen over the last five years**



Question: How concerned, if at all, are you about climate change? (Responses shown for very or fairly concerned).
*Statistically significant change over the previous quarter (at the 95% confidence level).
Base: In brackets. Balance: No response or not concerned.

Source: nus.org. March 2019.

1 https://sustainability.nus.org.uk/resources/student-opinion-climate-change-5def
2 https://sustainability.nus.org.uk/responsible-futures/articles/nus-s-first-sdg-teach-in-a-round-up

campaigns led by student activist groups had played a key role. In Scotland, the University of Edinburgh, which has Scotland's largest endowment, has committed to full divestment, while St Andrews' focus on sustainable investment criteria has precluded fossil-fuel investment as we will discuss later in this article. Meanwhile, the University of Glasgow was the first university in Europe to announce its divestment from fossil fuels in 2014.

According to activist group DeSmog UK, around two-thirds of the UK's Russell Group universities (which tend to have among the largest endowments) had divested from fossil fuels by 2018, with three – Durham, Cardiff and Bristol – fully divesting in one week in the same first three months of 2018. The other Russell Group universities that had not divested by this time were Birmingham, Leeds, Liverpool, Manchester, Nottingham, Exeter, York, and Imperial College London.[3]

In June 2016, the University of Cambridge, which has the largest university endowment in the UK (at over £6.4 billion as of 31 July 2018), followed the example of Oxford University and Yale in the US by blacklisting coal and tar-sands companies, but stopped short of full divestment from fossil fuels. A spokesperson, who sat on Cambridge's working group on investment responsibility at the time, told the Financial Times that, in response to student pressure to do more, the university was now requesting that its investment managers incorporate a degree of climate-change assessment into their investment process. He told the FT: *"We are challenging all our fund managers to rethink carbon investments"*, and that engagement with fund managers could include such considerations as, where feasible, *"to divest progressively, consistent with the expected performance of the portfolio"*.[4]

Advocates for divestment

According to The Cambridge Student newsletter, some 69 UK universities, along with Cambridge colleges Peterhouse and Queen's College, as well as two Oxford colleges, had divested from fossil fuels by July 2018.[5] At the university level, neither Cambridge nor Oxford have divested from fossil fuels in their respective endowments, although there is still a degree of student pressure being exerted. Pointedly, a spokesperson for Cambridge Zero-Carbon Society said after Queen's College's announcement:

> *"The tide is turning against the industry most responsible for fuelling climate breakdown. If University management refuse to realise that, then they are not fit to be running this institution."*

While the tide of public (and student) opinion may be slowly turning against fossil fuels, the decision to divest or engage is less clear cut. Many college investment committees and bursars continue to wrestle with how to deal with fossil-fuel investments, and, for some, the answer lies in continuing to engage with some of the major energy companies that they and their investment managers are invested with, as they look to move to a lower-carbon world. As our interviews show, a number of institutions continue to advocate this engagement approach – both with their students, and with the companies in which their investment managers invest.

3 https://www.desmog.co.uk/2018/04/13/mapped-uk-universities-have-pledged-divest-fossil-fuels

4 https://www.ft.com/content/4fff73c6-33b0-11e6-bda0-04585c31b153

5 https://www.tcs.cam.ac.uk/queens-divests-away-from-carbon-intensive-industries/

THE INTERVIEWS:
DIFFERENT PERSPECTIVES ON THE FOSSIL-FUEL DEBATE

We reveal the results of a series of in-depth interviews which reflect a range of different perspectives and insights on the issue.

OXFORD UNIVERSITY CLIMATE-CHANGE ACTIVIST

This Oxford postgraduate, currently undertaking a PhD in Climate Studies, has been a member of a climate-change activist group seeking to promote a fossil-fuel divestment campaign for the last two years. More recently, she has been participating in conversations within the administration of the university and with students who want to know more about positive investment and impact investing, as well as those who have concerns over fossil-fuel-related investments and are interested in full divestment.

She expresses a level of frustration at the speed of communication between the students and the university's investment committee. She told Newton: *"It takes a long time to get responses back to students, and it often feels to students that certain bodies are, at the university level, something of a foil to stall students so that they don't take action."* However, she adds that often those serving on the university bodies themselves may experience a lack of transparency with their endowment's managers *"which makes them feel like they cannot do their job effectively"*.

She says that, at the university level, students have been seeking to have more of a voice around the university's investment approach for some time, but with limited success. A degree of breakthrough was achieved in the last year when she was officially invited to sit on one of the university bodies, where she is able to represent and voice student concerns about gaining greater transparency on the socially responsible strategy executed by the investment managers of the university's endowment.

She says her aim remains to have student representation on the university's investment committee, but as yet this has not materialised.

> *Students have asked very reasonable questions, such as what the limitations and risks of reducing fossil-fuel investments down to zero are, as well as focusing on the potential impact of the university's investments on climate change.*

Her activist group has identified several strategies that are fossil fuel-free to put forward to the university, and has been having official conversations with their respective bursars for two years. She says that *"15 to 20"* Oxford colleges are actively involved, and that some bursars are *"more receptive than others"* to having more sustainable investment ideas pitched to them.

Bursar's teas

One activity from the group which was first initiated by Positive Investment Cambridge, has been to arrange 'Bursar's teas', in which meetings are held between students and college bursars to gain a better understanding of each other's perspective. Case studies were shared at the initial event, indicating how engagement with fossil-fuel extraction companies on their long-term plans to reduce their carbon impact had developed. The investment manager was also invited to come and give a presentation.

She tells Newton:

> *If an investment manager is not engaging around climate change, then students have every right to protest, but I have every faith that Oxford will announce [full divestment of fossil fuels] in the not too-distant future. We are booking out every vice chancellor meeting with students to talk about engaging over climate change.*

She also believes that the view that students are 'naïve' about the financial world and the work that their endowments do is often an unfair one.

"There is this narrative that we often get, [which is] that students don't understand how investments work, and that when you divest, you are not actually taking money away. Students are perfectly aware of how investments work, and we really do think that there is a social stigma about this."

She adds: *"We are very interested in seeing how Oxford engages with [fossil-fuel extraction] companies before any potential divestment, in the same way that we are respectfully trying to engage with the colleges. If bursars and finance teams are not engaged on this, it doesn't speak well to our power as a university because it shows a lack of political commitment and an entrenched attitude, [but] if we have 15 bursars asking the university about their environmental policies regularly, that is quite powerful."*

INTERVIEW: TWO

UNIVERSITY OF ST ANDREWS CHIEF FINANCIAL OFFICER

The University of St Andrews has been operating a socially responsible investment policy for a number of years, and ensures that the investment managers that it selects are broadly aligned with its sustainable criteria. This has moved the dynamics away from a simple equation of divest or engage.

Having been one of the earliest university signatories of the UN's Principles for Responsible Investment, St Andrews is invested in a blend of growth and income-orientated equities held across both active and passive strategies. It changed its strategic asset allocation in 2018 to have 75% of the endowment invested in global equities, 15% in property and 10% in diversified growth, with the Newton Sustainable Real Return strategy providing the latter segment.

Chief Finance Officer Andy Goor tells Newton:

“ *We work with our fund managers in terms of them using their selection criteria to achieve socially responsible investing outcomes in line with our criteria, and we continue to talk to all of them to understand what they are investing in.* ”

Goor says that at points over the eight years he has been at the university, he has been approached by students who have urged that the investment committee write in a pledge to specifically exclude fossil-fuel companies from the university's endowment.

"The reason we haven't written it in – and it's a reason accepted by the student president at that time – is because one of the biggest challenges we all face is needing to move away from fossil fuels into greener and more efficient energy sources. What I don't want to do is to prevent our fund managers investing in a good company that is doing good work in this field, but which may happen to be a spin-off from one of the major energy companies."

"You may have a company that is doing absolutely the right thing. Why would I not want my funds invested in a company that is doing exactly the right thing in terms of ticking all the right criteria for the fund manager and for us, just because it has a polluting head company?"

Goor says that the investment committee strives not to have too many specific exclusions because they want the fund managers to invest their funds to the best of their knowledge and to the best of their skill base using their specific sustainable criteria, within the framework of understanding what the university's sustainable criteria are.

Goor reports the performance of the endowment fund on a quarterly basis to a formal planning and resource committee and the university's court that includes student representatives. At any point, he may be asked about individual investments in the endowment. As part of their fiduciary responsibility, trustees periodically test the university's sustainable and environmental, social and governance (ESG) criteria to see whether applying them to investments hampers performance, and the results are fed back to the planning committee and the university's court body.

Each year, the university also holds a stakeholder event known as 'Green week' open to students and staff where fund managers within the endowment may be invited to open themselves up to questions about their investments. Annually, the university also publishes a list of all the equity holdings within the endowment. Investments in the health sector, data, green energy transition and energy efficiency have broadly replaced what may have been invested in fossil-fuel companies a few years ago.

Goor says that there has been no perceptible increase in student pressure in terms of increasing the university's green investments.

“ *We have had our sustainable policy in place for a long time. The student body is happy with what we do; we are clear as a university that we are trying to be carbon-neutral in terms of our own activities, and we have a sustainability strand to our strategy. Yes, there have been chats about fossil-fuel divestment, but students have been satisfied with our approach because, while we may not have said exactly what they wanted us to say, the reality is that we don't invest in fossil fuels under our existing criteria, so we are already achieving it.* ”

SHAREACTION HEAD OF NETWORKS

Our next interviewee, Lily Tomson, started out as a student fossil-fuel divestment campaigner at the University of Cambridge, but broadened her approach early on towards working with senior university finance staff to seek the most impactful use of their endowments, in alignment with institutional values. She co-founded Positive Investment, a national coalition of student groups working to ensure that universities and colleges engage in responsible, transparent and accountable investment. Through this, she worked with other students to develop the toolkit discussed in interview seven, worked with college bursars to identify highly impactful investment opportunities that they invested in, and co-ran a high-profile campaign around oil majors Exxon and Chevron on climate disclosure resolutions, working alongside student groups globally, and their university staff.

She tells Newton: *"Obviously our work as students built hugely on the global fossil-fuel divestment movement – but we felt it was time to move away from a sole focus on divestment. We wanted to put our energy into building a toolkit of ways in which asset owners globally can mobilise their endowments to address global, systemic risks, while making the returns needed to conduct critical operations, which in the case of universities, means being able to keep on teaching."*

> *"Our view was that divestment was one of the tools in the 'toolkit' in a set of strategies that we created, which we called 'Positive Investment'. We challenged ourselves to find, within the practical constraints of a university endowment, investments that could have the most positive impact on the real economy."*

"Divestment is a great lever to align endowments with a fossil-fuel-free future, and to make a strong public statement. However, it doesn't materially affect oil and gas majors, beyond potential reputational damage, because by definition, another investor has bought the share you've sold. Our view was that divestment is important, but beyond divestment we created a set of strategies that we called 'Positive Investment'. We challenged ourselves to find, within the practical constraints of a university endowment, investments that could have the most positive impact on the real economy."

These conversations resulted in an emerging toolkit of investment strategies, developed through collaboration between students, experts in civil society and industry, and university investment staff. An example of the toolkit is set out in our seventh interview on page 16.

Collaboration across difference

After completing her studies at Cambridge, Lily became head of networks at responsible investment charity ShareAction, working with charitable asset owners such as universities,as well as individuals, activists and civil society. In this role, she is coordinating the secretariat of a new group entitled 'Responsible Investment Network – Universities', which seeks to bring universities together to share best practice and challenges, and to benefit from research and engagement opportunities.

She tells Newton:
"My approach has always been based on collaboration across difference. I've always been amazed by the magic that happens when you sit with others and start with the expectation that everybody in the room is a rational, moral actor – and that reasonable people can disagree. This might sound silly, but I think it was at the core of our successful conversations as students – and this sort of ambitious action is what the investment directors that I'm now working with are looking for."

“Some of the most passionate leaders I have seen in this space have been older white men, and some of the most effective inside engagers are first-year undergraduates, with no background in finance or climate engagement.”

For a long time, she says that the standard approach of most student activists meant that the first thing finance directors, chief financial officers (CFOs) or bursars saw from them was ‘placards outside their windows’ and stresses her view that *“it is important to engage before, as well as during, your protest, to ensure that the people whose minds you are trying to change actually understand what you want – and to try to find out what their priorities are, too”*.

She admits that there are a number of challenges around prioritising this important work, which is why she believes it is crucial that both sides proactively seek to build a relationship.

She says the range of views and perspectives on climate-change engagement and fossil-fuel divestment between universities and colleges she works with is wide. Some institutions are *“deeply passionate”* about the subject, and the role of students in raising it up the agenda, while others *“see their role as executing what their institution has asked them for – a good, stable return”*, and expect other parts of their university to be focused on the issue.

She adds that *“there is a widely held, mistaken view that undergraduates campaign, and postgraduates talk”*, and dismisses the idea that age can also often be a factor in how engaged university bursars and financial staff are. While she believes there is certainly some truth in the former statement, she says there are just as many exceptions to the rule. *“Some of the most passionate leaders I have seen in this space have been older white men, and some of the most effective inside engagers are first-year undergraduates, with no background in finance or climate engagement.”*

“There is a widely held, mistaken view that undergraduates campaign, and postgraduates talk.”

Filling the knowledge gap

Despite her belief that individuals campaigning for a whole range of investment strategies and contents can be effective operators, she expresses frustration that universities’ responsible investment conversation often boils down to a perceived choice between divesting and engaging.

“We have a community of intellectually curious and engaged people, but we have a very limited conversation going on (which is whether to engage or not, or whether to divest or not); there is a much wider range of options. At ShareAction we’ve been working with endowed charities for years, and that network contains a collaborative ecosystem of quite varied actors. We have charity members that undertook widespread divestment across various sectors years ago, charities that buy shares in order to engage intensively with particular companies or sectors, charities that own a bit of pretty much everything and focus on working with their asset managers, and even charities divesting from fossil fuels recently, because they believe it is financially prudent. They are a broad church, and it’s exciting to see such tolerance of different pursuits for impact.”

She believes that the most effective approach is to tackle the knowledge and culture gap that often exists between students and university finance teams. The new network is working with the National Union of Students to design and deliver workshops and consultations, educating about responsible investment, and bringing students and investment staff together.

She also points to a need for investment managers themselves to provide transparent, public information about their investment activities, such as their voting policies and their engagement and escalation strategies.

“Most young people have only got their financial education, if at all, from banks coming into their schools, and most bursars have only heard about responsible investments from advisers selling products. There is a real lack of space in the conversation just talking about how things work and what the options are in a peer-to-peer or near-to-peer environment. It can also be really hard to get information about what a manager is doing on various points, and how they’re performing in relation to their peers, so I’m really excited that we are seeking to help universities to improve the conversation with their managers.”

“This is all about working with both students and investment staff who understand the urgency of our situation, and who are looking together for a range of solutions – including beyond simply divestment.”

SOAS UNIVERSITY OF LONDON DIRECTOR OF FINANCE

SOAS (formerly known as the School of Oriental and African Studies) was one of the first colleges to campaign on fossil-fuel divestment, and in March 2015, it publicly pledged to divest from fossil fuels within three years. It became the first London University college to fulfil this pledge when its fossil-fuel divestment programme was completed within the three-year timeframe.

SOAS has been a client of Newton since 2002, and at the point of the fossil-fuel review, it had an established ethical policy covering no investments in tobacco, gambling, armaments and human rights issues. Newton worked with SOAS to expand its ethical policy to accommodate its desire to divest from fossil fuels.

The process had begun in June 2014, when new investments in fossil fuels were frozen, and ethical investments introduced.

The commitment to divest came following a major student-led campaign for SOAS to remove its fossil-fuel investments in 2013, which garnered significant support from the student and staff community and beyond, including from the actor and climate-change advocate Mark Ruffalo and social activist Naomi Klein.

> *"It is thanks to our students that we became the first university in London to commit to divesting from fossil fuels. SOAS students care about the future of our planet and push the School to live to its values. I am delighted that we have fulfilled our pledge."*
>
> Baroness Valerie Amos
> Director of SOAS

"We already had sustainability as a core value on campus and were looking at how we could reduce our carbon footprint. This led to a 55% reduction in the carbon footprint on campus between 2008 and 2015."

Hannah Short, who was SOAS Students' Union governance & communications coordinator at the time, praised the divestment programme, but added: *"It's important for SOAS to practise what it preaches; challenging behaviour and policies is not just something that happens 'out there', but needs to be done right here at home first."*

"This is just one step on a long journey to being the best institution SOAS can be – particularly when it comes to the morality of its whole investment portfolio, amongst other things – but it's a step in the right direction. It's great that SOAS chose to set a progressive example, and that other universities and institutions are following suit."

The director of finance told Newton that while the initial pressure to divest from fossil fuels had been led by the student body, since then, the students and academics have moved together.

"We already had sustainability as a core value on campus and were looking at how we could reduce our carbon footprint. This led to a 55% reduction in the carbon footprint on campus between 2008 and 2015."

He says that faced with the renewed urgency surrounding the impact of climate change, SOAS is looking to embed sustainability into its curriculum.

"Our students are involved everywhere across the School and the Board of Trustees has two student representatives on it because we believe engaging with our students is fundamental to what we do as an institution; everyone is accountable."

"The nature of SOAS means that we regard ourselves as a highly integrated community. There are not many decisions made at the School where student input is not helpful. Our students have a diverse spread of views given that we are spit 50% UK/50% overseas, and 50% postgraduate/50% undergraduate."

HOW NEWTON WORKED WITH SOAS ON ITS SUSTAINABLE INVESTMENT POLICY

In March 2014, the School was tasked by a student group to review its investment policy with a view to excluding investments involved in fossil-fuel production. Working with the client, Newton conducted analysis on the portfolio to assess the impact of adopting such an exclusion. Newton helped SOAS engage with its stakeholders on the implications of a fossil-fuel exclusion on the investable universe and the impact it would have had on historical performance, along with other considerations.

Defining the problem area as companies involved in fossil fuels (extraction, distribution and energy-intensive manufacturing and processing to a 33% of turnover tolerance), in tar sands or oil shale projects (5% stake), and companies involved in mining and quarrying (10% of turnover), Newton established that SOAS's investable (benchmark) universe was reduced by 10.4%.

Newton also produced an analysis of the historic impact of that exclusion on benchmark returns, over the period from 2000 to the end of 2014. Over rolling three-year periods to 2011, (the 'commodity super cycle'), the impact of the exclusion on benchmark returns would have been negative, but thereafter the exclusion was additive to returns. Newton then helped the School through its thinking on the likely future impact.

In November 2014, Newton's investment and responsible investment team were invited to present to SOAS's finance committee and student representatives on the different approaches to the issues surrounding fossil-fuel investing. The session covered the various forms of divestment, how other institutions were thinking about the topic, and the importance and impact of engagement with the companies in the oil and gas sector.

The presentation was well received and helped inform different university stakeholders in their decision-making process.

AN IRISH UNIVERSITY DEPUTY CHIEF FINANCIAL OFFICER

According to the deputy chief financial officer of an Irish university that divested over two years ago, her university's investment committee had become increasingly aware of a rise in high-profile student protests calling for fossil-fuel divestment at a fellow Irish university, as well as at other institutions in the UK. Members of the committee took the view that student-led pressure on their endowment fund to seek divestment from fossil-fuel extraction stocks would only increase. At that point, back in 2014, they decided to start engaging with an activist student group that had been in contact over the preceding months.

The activist student society was gaining attention at the university and becoming increasingly vocal. It had influence on the elected officers at the student union and, eventually, the president of the student union, along with representatives of the group came to her and the university's chief financial officer requesting access to the investment committee, the finance committee and the university's board to progress the issue of fossil-fuel divestment.

The deputy finance director told us:

"We decided that the best way to approach this was to be collaborative and to engage with them."

She and her CFO helped the student group to prepare a presentation to the board on divestment, and, in return, the investment committee members were able to explain to the students about the necessary level of returns that needed to be generated to pay for bursaries and various other university funding projects.

The finance team also looked closely at its endowment, and found that it had around 4% invested in fossil fuel-related stocks, held within equity tracker vehicles. Initial conversations began in 2015, and the process took two years until divestment from fossil-fuel extraction companies had been completed, with most of the proceeds being reinvested in property and infrastructure holdings that offered a similar return profile to the fossil-fuel investments.

The investment committee signed a side letter with its chosen investment manager which ensured that the assets selected for investment were aligned with the investment decision to divest from fossil fuels. The investment committee also sought advice from external managers of US and European

endowments, and started to attend seminars on responsible investing to increase its knowledge. The announcement of the decision to divest from both fossil fuels and tobacco was made in December 2015, and was fully realised two years later.

The university's student union president now sits on the finance committee, and the president of the graduate's student union attends the quarterly meetings, while there are also four university student representatives on the university's board. No students are on the investment committee itself, which meets quarterly to review performance and to potentially change investment strategy. She adds that the reinvested assets have so far made returns broadly in line with the previous fossil-fuel and tobacco holdings. Moreover, there have been other benefits on a campus where sustainability is a key focus for both students and many academics.

The decision to divest has been well received by the local media, and has generated positive headlines for the university. Moreover, our interviewee adds that relations between the students and the bursars has improved, at a time when sustainability and a greener onsite agenda have also been ramped up.

"It has made for a more positive and collaborative relationship between students and the finance team."

A CAMBRIDGE COLLEGE UNDERGRADUATE JUNIOR COMMON ROOM PRESIDENT

One undergraduate Junior Common Room (JCR) president at a Cambridge college told us that she had experienced relatively little pressure from students to push for the college's investment committee to consider divesting from fossil fuels and that, in terms of the day-to-day agenda, ideas around broader sustainability on campus, such as being more efficient at recycling and reducing student rent prices, were the predominant issues.

She believes that at the undergraduate level at least, the degree of annual churn makes it more challenging for all but the most committed activists to continue to pursue such an agenda.

She adds: *"If you have a cohort of students who don't see themselves as being in a position to implement change, they are probably less likely to get involved. At some colleges you may see some students who see themselves as key mobilisers and activists. At [our college] we are focusing on different sustainable issues that are important too, but may go a bit more under the radar."*

> *"We are seeing very little [pressure to force the college to divest from fossil fuels] within the college. Most of the focus at the college level is around issues such as recycling and gender parity rather than climate-change issues per se."*

OXFORD UNIVERSITY PHD STUDENT CLIMATE-CHANGE ACTIVIST

Newton spoke to a PhD student at Oxford University, who sits on the investment committee of his college. He had been a grass-roots level climate-change activist as an undergraduate at Oxford, and campaigned as part of the student union and ethics group for Oxford University to divest from the top 200 fossil-fuel extractor companies in 2014. While that was unsuccessful, it did lead to the university-level announcement of divestment from tar sands companies in 2016.

He admits that five years ago he had little knowledge of "the levers to pull" to engage effectively with the finance team, but that, through working with the Positive Investment Group at Cambridge, he learned about how to engage and influence bursars' decision making. His journey from campaigning activist towards fully engaging with university financial professionals has evolved and adapted over time as his own understanding of their fiduciary role has grown.

Cambridge's Positive Investment Group has also liaised with the University of Edinburgh and University College London, and our interviewee collaborates with other activist groups such as the Oxford Climate Justice Group (OCJG) on engaging with college and university bursars. *"We want to challenge the universities to make sure they are investing their endowments in a way that can help secure opportunities for everyone to have food and shelter, and climate change is a key element within the environmental and social issues that are covered."*

He became part of his college's investment committee in 2018, and admits a mixture of *"respect and frustration over how it all works"* in terms of engaging with bursars and investment managers on sustainable issues.

> *"Over the years, our approach has changed, and we have been very careful with all our engagement to be very respectful and non-adversarial to ensure we build an understanding with the bursars. Taking a behind-the-scenes approach on engaging has paid dividends."*

He says there are still groups at various Oxford colleges who are advocating and campaigning for full divestment from fossil fuels, but that some of them, such as the OCJG, have engaged with his group to adapt their strategy towards the bursars.

"This doesn't guarantee that the bursars will listen, and some of them are wary of overtly 'political gestures', but it makes them more likely to have the conversation, which is when groups like Positive Investment can approach them."

He admits that some bursars are still not sufficiently aware of potentially more sustainable investment options that may be available to them or, in some cases, the urgency of the climate-change debate. For this reason, he believes it is imperative that investment managers attending investment committee meetings raise the issue at every opportunity.

"Too often, it is still not part of their discussions. I think the level of understanding among some older bursars of educational institutions is too low. They don't know enough about what works and what doesn't in terms of [more sustainable] investment solutions."

POSTIVE INVESTMENT – KEY OBJECTIVES

He has a list of the seven key objectives that he seeks to promote at his college's investment committee meetings, which are a blend of environmental and social goals that aim to channel student concerns to college finance staff and their respective investment managers. Our third interviewee, Lily Tomson at ShareAction, also played a key role in creating the objectives.

They are listed below:

1. Improve transparency and accountability in educational endowment management.
2. Improve dialogue with asset managers, asking for higher standards on engagement with companies and voting at AGMs.
3. Speak to retail banks, asking about their loaning portfolio and policy and how it pertains to fossil-fuel investments versus supporting low-carbon development.
4. Encourage student representation at AGMs, and internal dialogue with students to agree upon a question that students could ask at a company's AGM on behalf of their educational institution.
5. Invest with impact: making environmentally and socially positive primary market investments (private equity, bond issuance-stage debt purchasing, initial public offering share purchases), while eliminating environmentally/socially damaging primary market investments.
6. Issue green bonds to fund energy efficiency retro fits to university buildings.
7. Update investment policy for structural change.

A CAMBRIDGE COLLEGE SENIOR BURSAR

This senior bursar at a Cambridge college tells Newton that, so far, in contrast with the university itself, there has not been a huge clamour from students at his college to force a divestment from fossil-fuel companies, although the college's endowment has moved further towards more sustainable investing.

He says that the college's endowment is primarily comprised of a commercial property and securities portfolio, and that the income from the portfolio is used to support the college's charitable mission. The college endowment is also an investor in the university's endowment scheme, and the bursar adds that discussions have been continuing within the college for several years about wider social and environmental-related issues around the endowment, involving student groups, the investment board, as well as inter-college meetings.

> *"In most meetings, we talk about ESG issues without fail. Even if we don't act on anything after that meeting, we will talk about it, and believe it is as important as the performance of the assets."*

Three years ago, the college endowment changed its manager and moved into a pooled fund. Around 70% of the fund is invested in a responsibly run equity fund, in partnership with an Oxford college, which screens out various 'sin stocks' as well as using positive engagement.

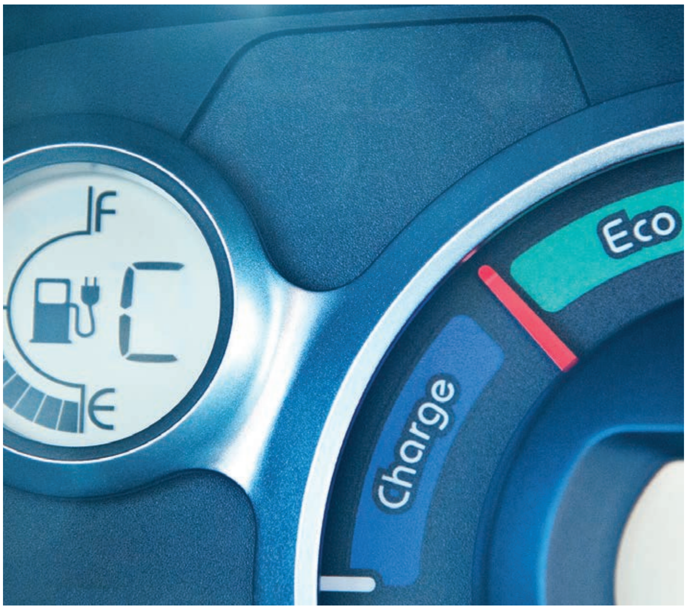
"We have moved along that way because of the growing awareness of these issues more broadly, and the reputational implications for the college, because we have a duty to have a degree of moral upstanding within our investment policy."

Over the last two to three years, he says the pressure from students in terms of climate change has been directed much more towards the University of Cambridge itself rather than the individual colleges, and believes this is down to the size of the university's endowment (over £6 billion), combined with its strong returns over the last ten years.

Transparency issues

He believes another reason that the university's endowment has come under fire is the lack of transparency over the underlying assets and from the asset managers themselves. *"It has not been transparent, which breeds some suspicion among some of the students – and some of the academics too",* he says.

Another key reason for the higher relative scrutiny of the university rather than the colleges is that it is viewed as a global leader in a number of areas of climate-change research, so there is growing interest in the position the university is



> *"We already exclude industries in arms, tobacco, gaming and adult entertainment. On fossil fuels, we have started to calculate the carbon footprint of our portfolio against the market."*

taking in terms of combating climate change. Despite this, the senior bursar says there have been situations where students have knocked on his door, but nothing comparable with the university itself, where students have organised a number of high-profile sit-ins over the university endowment's fossil-fuel investments.

As discussed earlier, the university trustee board agreed to some concessions, namely excluding tar-sand investments, but he says the fossil-fuel issue has come back to prominence in recent months. He says that several Cambridge colleges have moved to a no-fossil-fuel stance over the last three or four months.

Meanwhile, his college has taken a different approach, through pushing its investment manager to engage closely with the fossil-fuel companies held in the endowment, which has led ultimately to the endowment being invested on a more responsible basis.

Two oil and gas companies were held in the college's endowment, but one, a US oil and gas firm, was removed over a perceived lack of commitment to reducing its fossil-fuel extraction operations over time. The other, an oil major, has been retained, given that it has pledged to increase the proportion of its assets in renewables, grown its responsible operations, and set targets for management around sustainable goals.

At the end of each year, the investment manager provides a detailed annual report to the college which documents its engagements and sustainable investments, but he believes that thinking about the impact of climate change has broader implications beyond whether or not his endowment divests from fossil fuels.

He says:

“*We should be thinking across the whole suite, which includes the college's energy use and personal transport.*”

He believes students themselves often need to look at their track records, and even the grants that are handed out by the college allowing students to undergo global travel need to come under scrutiny, but in terms of how his investment manager explains the effectiveness of a sustainable approach, clear and accurate reporting is essential.

“*Having good quality data on engagement with businesses, and being able to disseminate it to finance committees and bursars in a digestible and easy-to-understand format, is of paramount importance.*”

While the primary pressure to divest is squarely on the university itself, he is not complacent, and knows that it will ultimately filter down, hence the discussions around sustainability and climate change in every investment meeting.

"If we haven't received the pressure [from students] yet, we take the view that we will receive it, so we need to be aware and on top of the topics and have answers ready", he says.

NEWTON'S TAKE ON SUSTAINABILITY AND FOSSIL FUELS

It is clear from our interviews that there are a range of perspectives and positions adopted by different educational establishments and their respective student groups. At Newton, we work hard to refine our ideas about responsible investment on a regular basis, because, while we are guided by some fundamental principles, we know that, when it comes to energy companies – and fossil-fuel companies in particular – things change rapidly. Similarly to the Cambridge senior bursar in the final interview above, we do, where it is feasible, look to engage with such companies, to help them reduce their carbon footprint over time.

> "
> **Newton recognises that climate change is a real and impending issue which requires significant action…**
>
> Our sustainable strategies will not invest in any company that we deem to be incompatible with the aim of limiting global warming to 2°C. This means that, if a company is a heavy emitter, would be unprofitable under a carbon cost of $140/tonne, and has no current intention of transitioning its business model to reduce emissions, it is uninvestable. "

At Newton, our responsible investment solutions fall into three broad categories:

Approach 1
Exclusions and screening

The first bucket, exclusions and screening, is an investment approach that we have run since 1988 for some of our faith-based and charity investors.

At the request of these clients, we can tailor portfolios to exclude entire sectors, for example armaments, tobacco or alcohol, or screen out individual companies.

Approach 2
ESG integration

Our ESG integration approach is the method we apply to the vast majority of our clients' assets (and has developed as part of the evolution of our investment approach since 1978).

Our responsible investment analysts apply ESG considerations alongside our conventional financial analysis as an integral part of our investment selection process.

Approach 3
Sustainable investing

Finally, the newest element of our responsible investment approach is what we term sustainable investing.

Our sustainable strategies adopt the fundamental principles captured by our integrated ESG approach, and then amplify the responsible investment requirements.

We use ESG analysis in order to positively identify companies with robust business models which effectively incorporate sustainability into their core business and strategy.

Our sustainable strategy range seeks to invest in durable business models. To focus in on companies that fit this bill, we have some principles-based 'red lines' to identify companies within the investment universe that are obviously unsuitable from a sustainability perspective. The first red line excludes tobacco stocks; the second removes companies violating the UN Global Compact Principles; and the final red line is related to climate change.

As a house, Newton recognises that climate change is a real and impending issue which requires significant action.

As a result, our sustainable strategies will not invest in any company that we deem to be incompatible with the aim of limiting global warming to 2°C. This means that, if a company is a heavy emitter, would be unprofitable under a carbon cost of $140/tonne, and has no current intention of transitioning its business model to reduce emissions, it is uninvestable. Under this red line, 259 companies from the MSCI AC World Index are currently excluded, including various energy and mining companies, as well as certain airlines and utilities.

Your capital may be at risk. The value of investments and the income from them can fall as well as rise and investors may not get back the original amount invested.

The energy issue

However, the energy sector has a key role to play in the fight against climate change, and there are questions we need to consider as more energy companies start to explore renewable technologies while continuing to extract certain fossil fuels.

While we can say that it is extremely unlikely that our sustainable strategies will invest in companies extracting coal, oil and tar sands, and at present they do not, we cannot say that they will never invest in a company that extracts gas. This is because there are some companies which are providing solutions to climate change, but are also involved in gas extraction.

"We have a nuanced approach to analysing fossil fuels, as there are potential positive investments on the fringes that can be inadvertently caught out by hard policies."

One example of this is a utility company that is not a typical electricity generator, but is primarily a UK energy service provider. It is making great strides in improving its carbon footprint, and is playing a crucial role in decarbonising the UK's energy grid. However, to ensure secure gas supply, it also has gas fields in the North Sea. A strict fossil-fuel exclusion policy would make this company uninvestable; however, we believe this would be a mistake. This is why we have a nuanced approach to analysing fossil fuels, as there are potential positive investments on the fringes that can be inadvertently caught out by hard policies.

After considering whether or not a potential investment crosses one of our red lines, we then apply our ESG integration process to ensure that unsustainable companies have not been overlooked.

Before any stock can be recommended to the portfolio managers across all our strategies, we analyse a company in relation to its 'E', 'S' and 'G' credentials and current and future strategy, give it an ESG review score, and determine whether it is sustainable or not. When looking at climate-change risks and opportunities, we analyse many data points, including a company's emissions on an absolute and intensity-level basis, as well as how a business compares to its peers. This helps to assess a firm's carbon footprint.

Analysing climate-change strategy

We seek to identify 'green' business solutions a company may present, to determine whether it will be suited to a net-zero carbon emissions world. A recent example of this was an analysis of a chemical company's crop-science division. We analyse a company's CDP score,[6] as well as its Transition Pathway Initiative (TPI) score,[7] and we assess whether it has science-based targets,[8] which determine the quality of its climate-change strategy. We also look to see if the company is reporting in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations,[9] a best-practice disclosure framework for climate-change readiness and action. If all this information is material, it is integrated into the company's overall ESG score, and goes towards the responsible investment team determining if it is sustainable. The responsible investment team can also exercise a power of veto over investment decisions, if related to sustainability concerns.

Finally, we are very sceptical of fossil-fuel companies that say they have sustainable business models. To be convinced that an incumbent is sustainable, we require a high percentage of the business to produce clean energy or solutions, and/or a significant commitment to research and development, and/or concrete short and medium-term time-bound targets to decarbonise the business.

"We are active Climate Action 100+ members, and are leading and supporting engagements with a number of companies."

Another important part of our ESG work is using engagement as a tool to push companies to improve. We engage with heavy emitters regularly, and ask all businesses to report in line with the TCFD recommendations. We are members of the Institutional Investors Group on Climate Change (IIGCC),[10] and we sit on the group's sub-advisory committee on AGM resolutions and within its corporate engagement programme. We are active Climate Action 100+ members, and are leading and supporting engagements with a number of companies. We also use our voting power to submit shareholder resolutions on climate change, and recently did this for example at BP's 2019 AGM.[11]

Analysing fossil fuels is not a clear-cut process. By taking a nuanced approach, we do not shy away from making hard decisions, but seek to ensure that we do not misjudge companies and miss out on sustainable investment opportunities.

6 https://www.cdp.net/en/scores
7 http://www.lse.ac.uk/GranthamInstitute/tpi/methodology/
8 https://sciencebasedtargets.org/what-is-a-science-based-target/
9 https://www.fsb-tcfd.org/about/
10 https://www.iigcc.org/
11 https://www.ft.com/content/fcb14d66-7bcd-11e9-81d2-f785092ab560

CONCLUSION

For those running college or university endowments, we hope that the interviews in this article may strike a chord and perhaps provide some potential answers for those seeking ways to make their investments more sustainable. We have shown that communication and transparency between bursars, investment managers and their students can play a key role in producing effective action on reducing funds' carbon footprint.

We hope that the article may also offer some insight in terms of interacting and negotiating with student groups for those finance staff who are going through a similar process.

There is no simple answer on whether engagement with, or divestment from, fossil-fuel companies is the best approach; it is for individual institutions to decide. However, at Newton, we believe engaging with those energy companies seeking to move to lower-carbon, greener energy sources is an effective way to reduce our environmental impact on the planet.

For those that agree with this assertion, we believe our sustainable strategies may be worth consideration by educational funds and endowments which are continuing to seek better ways to mitigate their environmental impact on the world around them.

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Further reading

1

2

3

1 https://www.newtonim.com/uk-charities/insights/articles/the-evolution-of-responsible-investing/
2 https://www.newtonim.com/uk-charities/special-document/responsible-investment-policies-and-principles/
3 https://www.newtonim.com/uk-charities/insights/articles/active-ownership-does-it-work/

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