UNIVERSITY OF BIRMINGHAM

Responsible Investment Policy

Introduction

This Responsible Investment Policy defines the commitment of the University of Birmingham to responsible investment. Its purpose is to detail the approach that the University aims to follow in integrating environmental, social and governance ('ESG') issues in its investments.

The Policy has been developed with the intention of active promotion of investment in companies and investment funds which demonstrate policies and practices that are in line with the University's values as a socially responsible institution.

The Policy applies to the full scope of the investments held by the University and is intended to be entirely consistent with the University's duty to yield the best financial return within the level of risk considered to be acceptable by the University.

Background

As a civic university, we embrace our unique role in contributing to the United Nations Sustainable Development Goals (SDGs). The goals are "the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including those related to poverty, inequality, climate change, environmental degradation, peace and justice''.

Socially responsible institutions are those that adopt policies that promote the wellbeing of society and the environment whilst lessening the impact. We have always understood that a commitment to society and the environment go hand-in-hand, and that commitment has been evident throughout our approach to sustainability across our research, our student experience, and through our innovative campus management and development. Our commitment now extends across the globe as we forge new connections by establishing the University of Birmingham India Institute, as we become the first global top 100 and Russell Group University to establish a campus in Dubai.

The University is developing a Sustainability Roadmap, due for publication in 2020. It will outline the institution's approach to tackling climate change and major global challenges.

Research that takes place at the University of Birmingham impacts on the lives of people regionally, nationally and globally. The University is home to leading academics focusing on global sustainability research and the Sustainable Development Goals. Our Birmingham Heroes campaign brings together the academics who are part of a large teaching and research community dedicated to enquiry, debate and change in transforming health, environment and society.

Investment of Funds

A separate document, the University of Birmingham Treasury Management and Investment Policy, sets out the objectives for the investment portfolios held by the University.

The University holds a number of different types of investments:

- Direct investment in subsidiaries and associated companies. These investments are usually related to the operations of the University; undertake related trading activities; or are involved in the commercialisation of intellectual property.

- University funds, which are surplus to the short term operational needs of the University, are held as longer term cash holdings with enhanced income returns; medium term investments in pooled investment funds with a 1-5 years investment time horizon; and long term equities investments. These funds are utilised to fund the University's capital plan.

- The University's Long Term Endowment Fund invests the following types of endowments:

  1. Unrestricted permanent endowments – the donor has specified that the fund is to be permanently invested and generate an income stream for the general benefit of the University;

  2. Restricted expendable endowments – the donor has specified a particular objective other than fixed assets and the University has the power to use capital over the medium term;

  3. Restricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

  The endowment fund invests in perpetuity and invests in bonds, equities, property and infrastructure.

Investment Principles

The University has identified three sets of principles which accord with its values as a socially responsible institution. Firstly, the stewardship of the operations of its external fund managers; secondly environmental, social and governance (ESG) integration into its investment operations and governance practices; and thirdly setting appropriate standards for all its investments through criteria that the University's external investment managers are required to take into consideration when investing the University's funds.

Stewardship

The investment managers that oversee the investment funds of the University work to agreed investment mandates. In developing these mandates the University sets a fundamental principle that managers must apply investment criteria based on environmental, social and governance (ESG) standards. As part of our investment manager selection process, the University requires fund managers to confirm that they have robust ESG policies in place. During the University's regular performance reviews of the fund managers, we consider their application of ESG policies in making investment decisions.

As the University delegates the day to day investment management to external investment managers it expects them to evidence their active ownership policies and actions on a regular basis.

The University believes that in investing its funds, regard must be made to social, environmental and governance factors. In making investment decisions the University expects its appointed mangers to consider the following areas;

- Promotion of human rights, including but not limited to the equality of gender, race and sexuality;
- Promotion of good business ethics and good employment practices;
- Protection of the global environment, its climate and its biodiversity; and
- Promotion of international co-operation and an end to international conflict including a prohibition of companies which produce armaments.

While operating with these criteria, appointed investment managers are left at their discretion to select individual stocks and to operate within their own Responsible Investment Policy.

The University expects its investment managers, as part of their normal investment research and analysis process, to take account of environmental, social, and governance (ESG) factors in the selection, retention and realisation of investments. The University considers that companies' effective management of the risks associated with ESG matters can lead to long term financial benefits.

The University requires its investment managers to have adopted the UN Principles for Responsible Investment and encourages them to hold companies to account by active engagement on corporate governance and use shareholder voting rights to influence company behaviour.

The appointed investment managers are required to report regularly to Investment Sub-Committee through the provision of monthly valuation data, quarterly investment reports and an annual environmental, social and governance report. Quarterly investment reports are required to contain detail on the active engagement with companies that the investment manager has undertaken and shareholder voting activity. The investment managers will engage directly with the Investment Sub-Committee through attendance at annual Investment Sub-Committee review meetings.

Environmental, Social and Corporate Governance (ESG) Integration

The University considers environmental, social and corporate governance (ESG) factors to be factors that give an indication of the long-term success of a company and can therefore impact upon investment returns and risk. The University believes that purposeful integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices can have a positive impact on financial performance.

The University has adopted the following, non-exhaustive definitions of the underlying components of ESG, as detailed in the United Nations Principles for Responsible (UNPRI) Investment Reporting Framework:

- **Environmental:** biodiversity loss, greenhouse gas emissions, climate change, renewable energy, energy efficiency, air, water or resource depletion and pollution, waste management, ozone depletion, changes in land use, ocean acidification and changes to the nitrogen and phosphorus cycles.
- **Social:** human rights, labour standards, child, slave and bonded labour, workplace health and safety, freedom of association and expression, human capital management and employee relations, diversity, relations with local communities, activities in conflict zones, health and access to medicine, consumer protection and controversial weapons.
- **Governance:** Issues relating to the governance of companies and other investment vehicles. For listed equities, these include: board structure, size, diversity, skills and independence, executive pay, gender pay gap, shareholder rights, stakeholder interaction, disclosure of information, business ethics, bribery and corruption, internal controls and risk management, and, in general, issues dealing with the relationship between a company's management, its board, its shareholders and other stakeholders. This category may also include matters of business strategy, encompassing both the implications of business strategy for environmental and social issues and how the strategy is to be implemented. For unlisted asset classes, governance issues also include matters of fund governance, such as the powers of advisory committees, valuation issues and fee structures.

In December 2019, the University became a signatory to the UNPRI. The UNPRI is a United Nations-supported international network of investors working together to implement its six aspirational principles. Its goal is to understand the implications of sustainability for investors and support signatories to facilitate incorporating these issues into their investment decision-making and ownership practices. The six Principles for Responsible Investment are a voluntary set of investment principles that offer a menu of possible actions for incorporating environmental, social and governance (ESG) issues into investment practice.

The University has adopted the following statement and the six principles set out below:

As an institutional investor, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions and asset classes and through time).

We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- **Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.
- **Principle 2**: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- **Principle 3**: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5**: We will work together to enhance our effectiveness in implementing the Principles.
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

<u>Exclusions</u>

The University aims to invest in companies where the activities of the company are, on ethical grounds, consistent with the educational and/or research objectives of the University.

The University's external investment managers are required to give consideration to the following investment exclusion criteria:

- Tobacco – Companies involved in producing and distributing tobacco products where revenues exceed 10% of global revenues and any companies involved in the manufacture of cigarettes and other tobacco products.

- Armaments:
    - Landmines and cluster munitions: these are prohibited under international treaty and as such are to be excluded from investment for every portfolio;
    - Civilian firearms, both the production and retail of civilian firearms;
    - Companies where revenues exceed 10% of revenues with activities connected to weapons systems, including components and services designed for weapons use products or services designed for weapons use;
    - Companies manufacturing whole weapon systems weapons, cluster munitions and anti-personnel landmines.

- Human Rights & Labour standards – Companies whose policies, practices and record on human rights and labour standards fall below the recognised standard as identified by MSCI ESG ratings or equivalent.

- Oil & Mining Companies – Companies where revenues exceed 5% of global revenues from Thermal Coal, Oil Shale & Tar Sands production (considered the most polluting).

Manager Discretion and the Use of Pooled Funds

The University primarily invests through managed pooled investment vehicles where the University's assets may represent only a small proportion of the capital invested by the investment manager. The University is able to invest in certain investment strategies through pooled funds where individual investors have no direct influence on the investments within the fund. However, the University recognises the important role we have as an asset owner and the opportunity to influence positive ESG standards through stewardship of the investment managers' engagement with companies' boards on behalf of the University.

The benefits of managed pooled investments include access to investments with large 'lot sizes' e.g. property and infrastructure and exposure to a more diversified range of underlying assets in the most cost effective way. In selecting pooled funds the University takes into consideration pooled funds' compatibility with the stewardship, ESG integration and exclusion principles detailed in this Policy.

Since May 2019, the University has transitioned the University's absolute return fund investments to investment funds that have specific responsible investment criteria. These funds heavily restrict or exclude investments in companies deriving revenue from the following areas: carbon and fossil fuels, defence and weapons, alcohol, tobacco, gambling, adult entertainment and high-interest lending.

The University has further agreed to proactively pursue responsible investment pooled fund options, where suitable investment vehicles are available, and where investment returns would be consistent with the University's charitable objectives.

Governance

The University's Investment Sub-Committee monitors the delivery of this Policy. The Investment Sub-Committee reports to the Strategy, Planning and Resources Committee (SPRC) on this Policy. The Investment Sub-Committee is also responsible for considering representations concerning this Policy, in collaboration with the University's Sustainability Steering Group and making recommendations to SPRC as appropriate.

Monitoring

In order to monitor the implementation and ongoing adherence to this Policy the University will:

- Publish this Responsible Investment Policy on its website;
- Issue copies of the Responsible Investment Policy to its investment managers responsible for managing the University's investments and hold regular meetings to monitor adherence with the Policy;
- For pooled investments, seek to minimise indirect investment in companies which would fall below the ESG standards and exclusion principles set out in this Policy;
- Invite a Student Representative Officer to attend annual Investment Sub-Committee meetings, which include investment manager review meetings;
- Consider representation from members of the University community that the University should not invest, or should disinvest, in specific areas.

In the event of an investment being considered by Investment Sub-Committee to be invested in funds or activities that are inconsistent with this Policy, the Investment Sub-Committee will review the position with its investment managers and seek to reallocate funds as appropriate.

Representation process

The Responsible Investment Policy will be published on the University's external website, with appropriate contact details, enabling members of the University community to have an opportunity to engage with the Policy.

Staff and students are also given an opportunity to engage with this Policy via their staff and student representatives. Membership of the University's Sustainability Steering Group and SPRC include a Student Representative Officer.

Review process

The Responsible Investment Policy is subject to an annual review, evaluation and monitoring process undertaken by the Investment Sub-Committee, who consider the Policy, in collaboration with the University's Sustainability Steering Group, and make recommendations to SPRC for consideration.

Date reviewed: September 2020