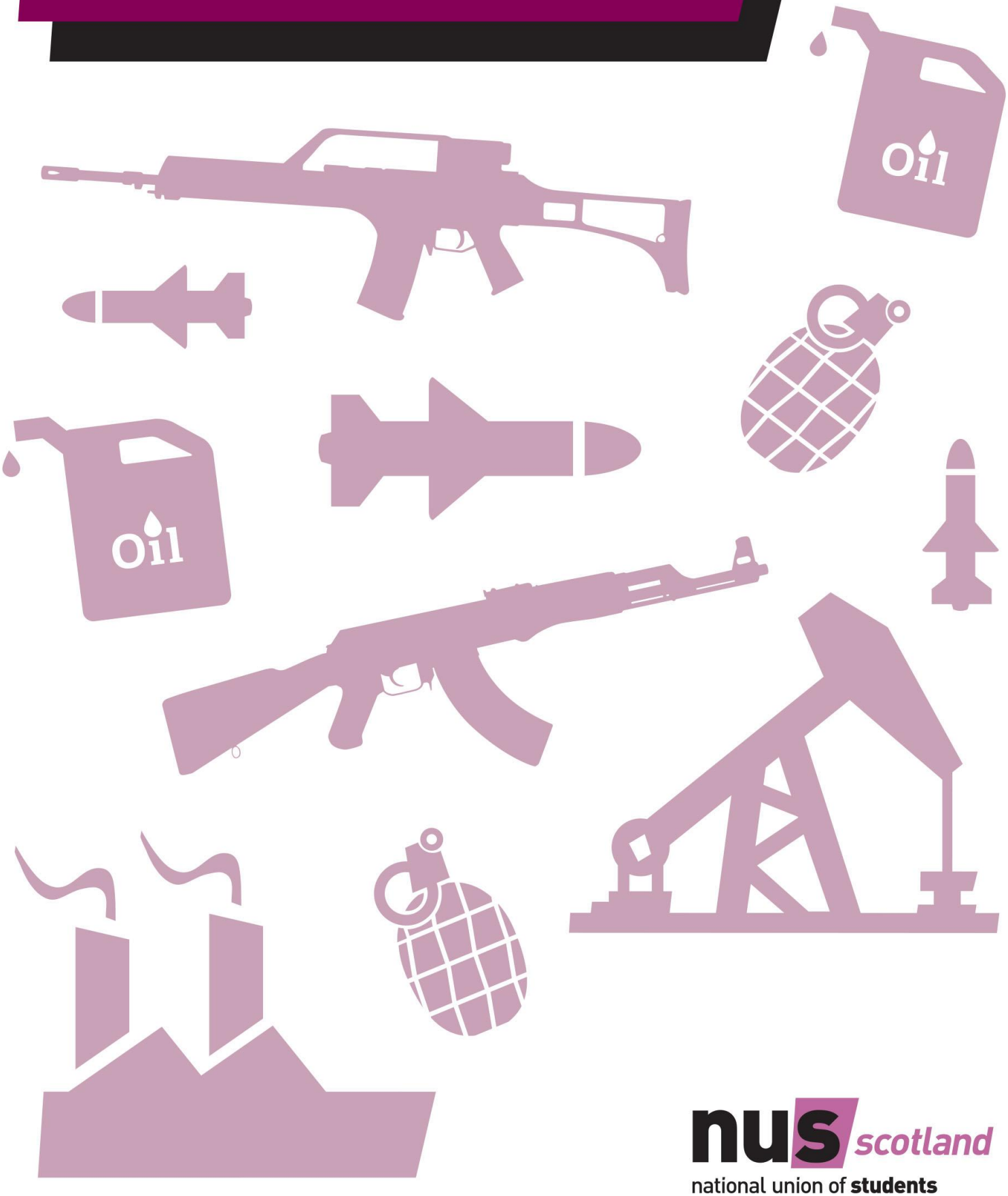
# Don’t dither, divest!

## Ethical investment by universities in Scotland




nus scotland
national union of students

The detailed Freedom of Information data discussed in this report is available on request from:

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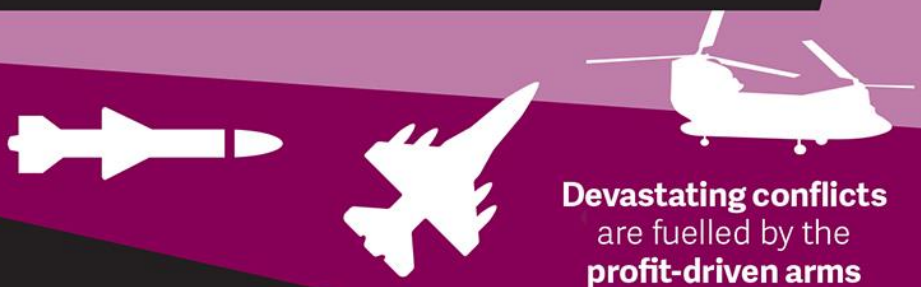
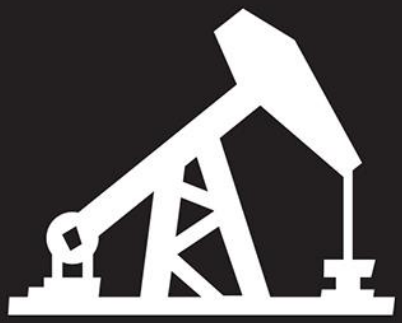
# Arms and fossil fuel companies are harming people and our environment



**Devastating conflicts** are fuelled by the **profit-driven arms industry**



We're on the **brink of a climate disaster**, but oil and gas companies are digging up even **more dirty fossil fuels to burn**


## How is this possible?

Because **we make it possible by funding these industries**

**Scottish universities** are investing **£21 million in fossil fuel** companies

&

**£3 million in arms** companies

Our universities should be leading the way for **a better future**

## We want to see Scottish universities divest from arms and fossil fuels now

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**#divest**

**www.nus.org.uk/scotland**

# Contents

# Foreword

Our education institutions, universities and colleges, should be leading the way to a better, safer and more just future across everything they do. They are already contributing to social progress and the common good by producing knowledge and innovation, by educating students to become informed and active citizens and fostering discussion on a number of social issues. Yet, when it comes to investments, many of our institutions are far from reaching the high ethical standards they aspire to in other areas.

This report analyses the current investment practice in among Scottish universities. Despite a growing recognition that investment decisions should adhere to ethical and social standards, we found that too many of our education institutions are still investing millions into arms and fossil fuels – companies that are destroying our planet and fuelling conflict. Furthermore, many universities make their investment decisions behind closed doors, and many more wash their hands of dirty investments by outsourcing them to external contractors.

The past few years have seen a growing number of public bodies, as well as private sector investors, realise that they have a responsibility to use their money for the common good. Over 80 investors, ranging from church groups to national pension funds, and notably the Rockefeller Trust have decided to divest from harmful fossil fuels. In early 2015, the University of Glasgow became the first university in the United Kingdom to commit to full fossil fuel divestment. This commitment was shortly followed by the School of Oriental and African Studies' decision to withdraw their fossil fuel investments. Students, staff and wider communities around the world are demanding that their institutions move their money to clean industries that will benefit future generations.

In its assessment of the current investment practice in Scotland, our report purposefully focuses on endowment funds. However, we recognise that there is huge potential in changing the policies and practices of the pension funds our college and university staff to ensure they are fossil and arms free too. In my view, this where the divestment movement in the educations sector should look towards next.

We hope the divestment movement will continue to grow and contribute to creating a world where investors are funding companies that contribute to sustainable development, welfare and progress. The first step is to make sure that our publicly funded education institutions withdraw any investments from armaments and fossil fuels, and move their money to benefit their students, staff and the communities around them.

So, Scotland's higher education institutions – I want to call on you to do the right thing for your students, your workers and the wider communities you serve. Don't dither, divest.

**Kirsty Haigh**
**Vice President Communities**
**NUS Scotland**

# Research on current investments

# Investing through endowments

In October 2014, NUS Scotland submitted a Freedom of Information (FOI) request to all Scottish universities. The freedom of information request asked:

- what size the university's endowment was
- whether the institution had in place an ethical investment policy
- what companies or financial products the university was investing its endowment funds in

The request was submitted to 17 Scottish universities[1], all of whom responded. Data was supplied for the year 2013 to 2014, or the latest year for which information was available.

The shared endowment in the Scottish Higher Education sector totalled approximately £560 million. The size of endowments ranged from just over £291.8m at the University of Edinburgh to £149,000 at Glasgow Caledonian University.

## Top six endowment funds in Scotland

| | |
|---|---|
| **University of Edinburgh** | £291.8m |
| **University of Glasgow** | £157.8m |
| **University of St Andrews** | £49.9m |
| **University of Aberdeen** | £35m |
| **University of Strathclyde** | £27m |
| **University of Dundee** | £21m |

Outsourcing of portfolios was commonplace, and nearly all of the institutions that responded invested either all, or some, of their funds through one or more externally managed fund. This had a significant implication on the quality and quantity of data that respondents provided. This meant that only half of the respondent institutions were able to provide detailed information on the companies and industries their investments ended up financing, which arguably could lead to a lack of accountability for their investments.

[1] University of Aberdeen, University of Abertay, University of Dundee, University of Edinburgh, Edinburgh Napier University, University of Glasgow, Glasgow Caledonian University, Glasgow School of Art, Heriot-Watt University, Open University, Queen Margaret University, Robert Gordon University, Royal Conservatoire of Scotland, University of St Andrews, University of Strathclyde, University of Stirling, University of the West of Scotland

# Ethical investment policy

In the FOI request, NUS Scotland asked whether institutions had in place policy on socially responsible investment. All except one institution had some form of written down policy that directed their investment decisions from an ethical perspective.

## Socially Responsible Investment principles

In the FOI request, NUS Scotland asked whether institutions had in place policy on socially responsible investment. All except one institution had some form of written policy that directed their investment decisions from an ethical perspective.

Many universities referred to principles of Socially Responsible Investment (SRI) as an aspiration in their investment policy. Most institutions recognised that profitability and returns were not the only guiding principle of investment decisions, but that Trustees should also consider whether investments are in line with the ethos and purpose of their institution. The University of Stirling explicitly stated that keeping to its ethical investment policy may result in lower returns to the University.

However, no institution provided a detailed description of what their SRI principles entailed. Two institutions used United Nations instruments as a benchmark for their investment policy and practice. The University of Aberdeen stated that it would only invest in companies that adhere to the 10 principles underlying the United Nations Global Compact, while the University of St Andrews recognised its commitment to the United Nations Principles on Responsible Investment as a guide to its investment practice.

Despite the recognition given to SRI principles, very few institutions are currently applying exclusions to their investments based on ethical considerations. One institution excluded pornography, one gambling and one alcohol, while three institutions excluded investments in tobacco companies and two excluded investments in gambling companies. A total of four institutions excluded investments in armaments, although some of these exclusions only applied to controversial weapons, such as cluster bombs. While the formal policy of the University of Aberdeen did not make explicit exclusions beyond arms, gambling and pornography, it applied further exclusions through one of its externally managed portfolios based on the companies' adherence to the UN Global Compact.

## Monitoring and fund manager engagement

At eight of the institutions that responded, the ethical investment policy also governed external fund managers SRI practice. While many institutions did not specify the exact method of engagement, some described specific monitoring practices that would ensure fund manager compliance. For example, Edinburgh Napier University and the University of Glasgow required fund managers to use environmental screening services, while others, such as the University of St Andrews, required reporting by fund managers on responsible investment to the institution.

Some institutions mentioned taking social and ethical concerns into consideration in the procurement process for the portfolio product they use. In most cases, monitoring and engagement

processes were not clearly defined, and there were no specific criteria in place for fund managers to adhere to.

This implies that external fund managers are given a considerable amount of discretion in the manner in which they shape the university's portfolio to be in line with SRI principles. Edinburgh Napier University was the only institution that required their fund managers to consider social responsibility parameters in investment decisions through a contractual clause.

## Democracy and transparency

A small number of institutions had in place policies to ensure investment decisions are made public and are open to scrutiny. The University of Edinburgh and the University of Glasgow committed to publishing their portfolio online, while the University of St Andrews informed a wider stakeholder group about the institution's investments at an annual public event. However, the vast majority of institutions would not automatically provide public information on their investment decisions.

Four institutions had in place a formal process for challenging unethical investments. This would take place by a representative group within the university or any stakeholder group making a representation to the Investment Committee, Finance Director or Court, who would then review the relevant investment. However, the criteria for challenging an investment was often lacking in detail – in most cases, investments could be called into question if they were seen to be in conflict with the values, ethos or purpose of the university. This means that arguments for divestment may be difficult to justify unless they relate to a very specific existing exclusion policy, such as the requirement to not invest in cluster bombs.

While most institutions have recognised the importance of SRI principles in written policy, they fall short of having clear criteria and rigorous monitoring processes that will ensure investments are ethical and that decisions are made in a democratic and transparent manner. This may compromise their ability to deliver on SRI commitments in a meaningful way.

# Direct investments in harmful industries

Out of the 17 institutions that responded, only eight provided information on direct investments made. All eight of those institutions held investments in the fossil fuel industry, while four held investments in the arms industry. Fossil fuel companies were split into two categories – companies that are directly involved in fossil fuel exploration and extraction, and companies that produce goods and services to the fossil fuel industry. Arms companies were identified as companies where the mother company or subsidiary companies produce armaments and other equipment for military use.

The endowment pot of these eight institutions in total was approximately £386.9 million. Of the combined endowment pot, 4% (approximately 15.8 million) was invested in companies involved in fossil fuel extraction, 1% (approximately £5.6 million) in companies involved in fossil fuel services, and 1% (approximately £2.8) in companies involved in arms manufacturing. This is a total of 6% socially and environmentally harmful investments made directly by Scottish universities. It should be noted that while the University of St Andrews and Heriot-Watt University did not provide data on investments held, they did provide lists of companies they were invested in. These included holdings in fossil fuel companies such as Rio Tinto, BG Group and BHP Billiton.

## Investment in arms

Arms investments were far less common than investments in fossil fuel companies. Many institutions already applied exclusions on investments in the arms industry, which suggests that arms investments have already become widely stigmatized among university investors. In this context, the investments made into armaments by the below four institutions are particularly controversial.

### Investment in arms

| | |
|---|---|
| **University of Glasgow*** | £1,292,113 |
| **University of Strathclyde** | £820,620 |
| **University of Edinburgh** | £675,080 |
| **Robert Gordon University** | £20,543 |
| **Total** | £2,808,356 |

*Nominal holdings

## Fossil fuel investments

It is worth noting, that while the universities with the largest endowments are accountable for the majority of investments in fossil fuels, institutions with smaller endowments were also investing significant proportions of their funds into the sector. As discussed in more detail below, this should be a cause for concern for institutions not only from an ethical perspective, but also with regard to the long-term security of financial returns.

| Fossil fuel investments | | Percentage of endowment |
|---|---|---|
| **University of the West of Scotland** | £160,123 | 16% |
| **University of Stirling** | £36,788 | 6% |
| **Edinburgh Napier University** | £18,984 | 7% |
| **Robert Gordon University** | £146,923 | 8% |
| **University of Strathclyde** | £2,921,472 | 11% |
| **University of Glasgow*** | £2,433,930 | 6% |
| **University of Edinburgh** | £13,748,019 | 5% |
| **University of Dundee** | £1,954,184 | 9% |
| **Total** | £21,420,423 | |

*Nominal holdings

Most universities directed investments into the same large multinational companies, many of which have been involved in various dispute.

| Top three fossil fuel companies | | Percentage of industry investment |
|---|---|---|
| **Royal Dutch Shell** | £3,248,924 | 21% |
| **Total** | £2,256,205 | 14% |
| **BP** | £2,028,006 | 13% |

Over several decades, Shell has been accused of human rights violations and oil spills that took place around its extraction operations in the Niger Delta. The company has faced numerous trials on the harms it caused to the local communities in the Delta, and in 2013, it was ruled to pay compensation to a Nigerian farmer in a Hague court.[2] BP was famously responsible for the devastating Deepwater Horizon oil spill in the Gulf coast in 2010. The company has been accused of mismanaging the exploded rig and the clean-up after the spill took place.[3] Meanwhile, the French oil and gas company Total has a reportedly been involved in various corruption instances, including a case of bribery around oil contracts in Iraq.[4] At £799,507, the largest proportion of arms investments was made to BAE Systems, a British arms manufacturer that trades with Saudi Arabia whose Government have a poor human rights record.[5] Investments were also made in the military contractors United Technologies (£139,291) and Smiths Group (£394,052).

Universities benefit from working with well-respected companies that can provide stable long-term financial returns. Investing in companies and industries that are engaged in harmful activities or have poor business records can cause reputational and financial damage to investors, as well as compromise socially responsible investment commitments.

[2] Dutch court says Shell responsible for Nigeria spills (30.1.2013) Reuters. Available at: http://uk.reuters.com/article/2013/01/30/uk-shell-nigeria-lawsuit-idUKBRE90T0DC20130130
[3] Deepwater Horizon: Cleaning up (20.4.2014) Financial Times Available at: http://www.ft.com/cms/s/0/7e2a3c96-c548-11e3-a7d4-00144feabdc0.html#slide0
[4] Total charged with corruption over Iraqi oil-for-food project (7.4.2010) The Independent. Available at: http://www.independent.co.uk/news/business/news/total-charged-with-corruption-over-iraqi-oilforfood-project-1937547.html
[5] https://www.caat.org.uk/resources/companies/bae-systems

# Indirect investments and lack of information

Half of the institutions that responded were either unable or unwilling to provide detailed information on secondary investments made through external portfolios. Some, such as Glasgow School of Art and Queen Margaret University only made direct investments into financial products. The University of Abertay similarly held its direct investments in financial products, and claimed it was unable to gather information on secondary investments from its external fund manager. Others, namely Heriot-Watt University and the University of St Andrews cited commercial confidentiality and refused to disclose figures for investments made through externally managed portfolios.

Finally, The University of Aberdeen, who invests its endowment through a pooled, externally managed fund, was unable to provide details on which companies its money was invested in at a given point in time, as the investments made from the fund change at a rapid rate.

This indicates that sector investments in fossil fuel and arms companies are likely to be higher than the figures on direct investments suggest. The lack of information, transparency and control that results from outsourcing investments to external fund can have significant implications on institutions' ability to deliver on ethical investment objectives. Commitments to SRI principles have little impact unless the university has processes in place to ensure that the external companies the university uses are:

- required to provide the university information on what companies they invest the institutions' money in and,
- contractually obliged to screen for any harmful primary or secondary investments.

In order to ensure that it adheres to SRI commitments, a university needs to be able to gather information on and have control over investments made from its endowment, whether they are managed in-house or by an external company. The current trend towards outsourcing investments means, that there should be more focus in the sector on making sure that external companies providing services and products used are in keeping with ethical standards.

# Steps towards ethical investment

# Making better investments

A key role of our universities, given they are publicly funded bodies, is to contribute to the common good. They are directed by and be accountable to the wider university community, including students and staff. We believe that the current lack of transparency and accountability in universities investment practices, as well as investments held in companies that are shown to harm people and the environment, are inconsistent with the purpose and ethos of our education institutions.

By working towards the following steps and recommendations, our universities will be able to use their influence as investors to create a better, safer and more just future.

## Divest and reinvest

In addition to ethical concerns, investment in fossil fuel companies in particular may not be the most beneficial financial option for universities. University Court members, who are ultimately responsible for institutions' investment decisions, are required to act for the benefit of their institution. Many institutions have interpreted this duty in their investment policy as a duty to ensure that investments are not risky and that they provide high returns to the institutions concerned.

The scientific consensus around the harmful impacts of the fossil fuel industry is growing. It is now commonly accepted that if we are to prevent a catastrophic above two degree rise in temperature, 80% of known fossil fuel reserves must be left in the ground.[6] In recent years, an increasing number of researchers have expressed concerns over the 'carbon bubble'. That is, they have identified a growing risk related to the over-valuation of oil, coal and gas reserves held by fossil fuel companies.[7] Furthermore, a recent report by the Smith School at the University of Oxford warned investors of coal stocks becoming a 'stranded asset'. This means that continuing investment in the sector could result in significant financial losses.[8]

At the same time, evidence suggests that shifting onto a fossil-free portfolio will have minimum financial impact on investors. Some research suggests that fossil-free portfolios can even outperform conventional investments.[9] Moving funds into ethical, fossil-free and armaments-free portfolios can be a financially sustainable choice. Institutions can either work with their existing fund managers to redirect harmful investments, or move their funds to one of the existing ethical portfolio products.

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[6] World Energy Outlook: Executive Summary (2012) International Energy Agency. Available at: http://www.iea.org/publications/freepublications/publication/English.pdf
[7] Unburnable Carbon: Australia's carbon bubble (2013) Carbon Tracker Initiative and The Climate Institute. Available at: http://www.climateinstitute.org.au/verve/_resources/Unburnable_Carbon_Australias_Carbon_Bubble_finalreport.pdf
[8] Stranded Assets and Subcritical Coal: The Risk to Companies and Investors (2015) Smith School of Enterprise and the Environment. University of Oxford. Available at: http://www.smithschool.ox.ac.uk/research-programmes/stranded-assets/publications.php
[9]See: Beyond Fossil Fuels: The Investment Case for Fossil Fuel Divestment (2013) Impax Asset Management Ltd. Available at: http://www.impaxam.com/media-centre/white-papers/beyond-fossil-fuels-investment-case-fossil-fuel-divestment; Do the Investment Math: Building a Carbon-Free Portfolio (2013) Aperio Group. Available at: http://gofossilfree.org/se/wp-content/uploads/sites/13/2014/07/building_a_carbon_free_portfolio.pdf; Climate Proofing Your Financing: Making Your Money Fossil Free (2014) The Australia Institute. Available at: http://www.marketforces.org.au/wp-content/uploads/2014/05/Climate-Proofing-Your-Investments-RETAIL.pdf; Thoughts on the 2014 Performance of the FFIUS (20.1.2015) Available at: http://fossilfreeindexes.com/2015/01/20/thoughts-2014-performance-ffius/

### Case study: Quakers opt for full divestment

In October 2013, the Quakers in Britain sold off their oil and gas extraction-related stocks from their £22 million portfolio. In the lead-up to divestment, the Quakers took advice from their stockbrokers and investment managers Rathbone Greenbank, who advised their client that their portfolio could still be effectively managed without access to oil and gas stocks. Since then, the Quakers' portfolio has outperformed the general index in 2014.

## Increasing transparency and accountability

Our universities are publicly funded institutions that exist to educate and advance society. In 2012, the Review of Higher Education Governance (or the von Prondzysnki review)[10] highlighted that universities play a number of roles of direct significance to society, which go beyond personal interests of students, organisational ambitions of institutions and the expectations of those who employ graduates.

The von Prondzynski review recommended that students' associations are represented at all levels of governance, and that trade unions are involved in meaningful consultation and collegial decision-making.[11] The way a university invests its funds is relevant to students and staff as stakeholders in the financial sustainability of the institution, but also as members of the university community who have an important role in determining and up-keeping the values of the institution.

Having a variety of viewpoints and representatives from different backgrounds on governing bodies advances good decision-making and governance. This applies to committee-level decision making as well as Court level membership. We believe that involving staff and student representatives in universities' investment and finance committees will enable institutions to run their finances in a transparent, effective and ethical manner.

### Case study: Student representation at the University of Aberdeen

In 2014, the Aberdeen University Students' Association (AUSA) agreed to take up a place on the University's investment committee. The position has been filled by the President for Environment and Ethics, who provides a student perspective on decisions regarding the university's endowment portfolio. Since AUSA received a place on the Committee, their representative has contributed to the University's decision to move some of its holdings to a new fund, whose investments the University can track. Thus, AUSA's involvement has helped increase the transparency of, and information on, the University's portfolio.

### Case study: Challenging investments at the University of Glasgow

At the University of Glasgow the student representative body and trade unions within the university are able to make representations on investments that they have concerns about. The representations are considered by the University Court group, which includes a representative of the student body. The group may make a recommendation for divestment, if the investments raised are contrary to the University's values. This written down, formalised procedure is coupled with the institution's commitment to make its investment portfolio publicly available. Thus, groups within the University are both able to receive information on investments, and to challenge their ethical credentials.

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[10] Report of the Review of Higher Education Governance in Scotland (2012). Available at: http://www.gov.scot/Resource/0038/00386780.pdf
[11] Ibid. pp. 22

## Investing in positive industries

Scotland's universities are driving change in their research work. Various universities dedicate research activities to examining the impacts and mitigation strategies for climate change, and to developing renewable energy sources. These institutions can lead the way by creating new forms of clean energy and by helping fund new, socially beneficial industries.

A number of options for positive investment into renewable energy currently exist. There is a growing market of investment portfolios and products that focus on the renewable sector. This option will allow universities to outsource their investments while ensuring that their money is being used for positive change. A more proactive investment option is considering financing community energy projects or other activities that advance the benefit of the university's students and staff or the communities around it.

### Case study: Investing in community energy projects

In February 2015, the Strathclyde Local Government Pension fund decided to invest £10 million to community power projects, which are backed by the UK's Green Investment Bank who will provide a further £50 million investment for the project. The investment will be managed by Albion Community Power, and is earmarked for a hydro-electric power station in the West of Scotland.

# Recommendations

## NUS Scotland recommend universities to take the following steps towards ethical investment:

- No investments in companies that derive their income from fossil fuel exploration or whose main activity is to provide services or goods to the fossil fuel industry.
- No investments in companies that derive their income from arms manufacturing.
- If contracting an external company to manage its funds, an institution should oblige its contractor to exclude fossil fuel and arms investments, and to monitor and report on SRI practice.
- An institutions should publicise information on its investments annually.
- There should be student and trade union representation on the body that makes decisions on the institution's investments.
- Students and staff should be able to instigate a review of investments if an investment is deemed to be contradictory to the values of a publicly funded institution. Such investments could include investments in companies complicit in human rights abuses or environmental degradation.

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