

## Statement on Socially Responsible (Ethical) Investment

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Council first approved a Statement on Socially Responsible (Ethical) Investment in June 2008, and this updated statement was approved following a review in November 2009.

The School is concerned to conduct investment management in a socially responsible and ethical manner that comprehends the interaction of environmental, social and governance issues with financial returns.

This paper summarises the main practices by which this is currently achieved.

### 1. **Background – General**

There has been recent rapid growth in the development and promotion of Socially Responsible or Ethical Investment products and the adoption of SRI policies by pension funds, local authorities, and some universities.

There is limited time series data on SRI and limited research on its effects.

There is no regulation of the designation by fund managers of investment funds as “ethical”, and companies or sectors that may be favoured or excluded in one ethical fund may be conversely excluded or favoured in another ethical fund.

### 2. **Background – LSE**

The School invests endowment funds to enable the educational purposes of donations to be met.

The School conducts education and research across many of the areas that are of concern in SRI, including Human Rights, Environment, International Relations, Bio-ethics, Health, Poverty, Development, International Trade, and many more.

### 3. **Applicability**

The current practices have been in place since divestment of non-endowment School funds in February 2006. Since that date, no funds arising from student fees or from the day to day activities of the School have been invested in equities. Endowment funds originating from grants and donations are invested in accordance with the investment policy approved annually by Finance and General Purposes Committee.

**During 2008/09, the Finance and General Purposes Committee approved divestment from its then existing hedge fund investments, where the School is unable to monitor the underlying investments and activities in which the hedge fund invests.**

The practices, regulations and statutes set out below are those applicable in November 2009.

### 4. **Socially Responsible (Ethical) Investment – current policy and practices**

The School currently adopts an all share index tracking strategy for its equity investments. The School has no direct investments in any equity, and invests in equities primarily via Common Investment Funds designed for charitable investment.

Council has resolved that engagement rather than divestment should be the basis of development of the School's SRI policy (minute 114 a, March 2008.)

The School seeks to ensure that its investments are managed in a Socially Responsible and Ethical manner and in accordance with fiduciary responsibilities by the following means.

- 1) Council members and School Officers are required to comply with the seven principles of public life (the Nolan Principles) that are published in each set of Council papers.
- 2) Council members and School Officers are required to declare outside interests and to avoid participation in decisions, including investment decisions, where there is a material conflict of interest.
- 3) By an effective governance, management and advisory structure for investments that ensures that endowment funds and income earned thereon are applied to the educational purposes for which the related donations were made and that the fiduciary responsibilities of Council are fulfilled.
- 4) By appointing fund managers who have a published policy a) of taking into account environmental, social and governance (ESG) issues in their assessment of companies in whom the School has investments; b) of engaging with those companies where ESG issues are a concern to financial sustainability and c) reporting on their engagement with those companies, to manage the School's principle endowment funds investments.
- 5) By including relevant environmental criteria in all procurement decisions, including procurement of consultants and advisers.
- 6) By not making any direct equity investment with companies with whom there are ESG issues where such investment would bring the School into disrepute. (The School currently has no direct equity investments.)
- 7) By maintaining separate accounting records for School funds that are not related to endowments, and for grants and donations that are to be spent within five years, and by ensuring that such funds are either used to reduce term debt or are placed on term deposit with authorised counterparties, and are not invested in equities or corporate bonds.
- 8) The Students' Union has 2 members on the School's Finance and General Purposes Committee and 1 member on the Investments Committee to ensure that a) there is student participation in review of investments and investment decisions and b) that students have an effective vehicle for representation of ESG issues related to the School's investments.
- 9) The School does not invest funds in support of any political party or campaign.
- 10) The School complies with the guidelines of the Charity Commission on ethical investment.**
- 11) The School does not invest in funds where it is not possible to monitor the underlying investments.**

**5. Socially Responsible (Ethical) Investment – Current regulations and statutes**

- 1) The Council SOPR (14) says the governing body is “to act as trustee for any property, legacy, endowment, bequest or gift in support of the work and welfare of the School”
- 2) Under the 2006 Companies Act, company directors are obliged – as reviewed by Council on 30/10/07 (CL/5 paragraph 3.8) - to consider whether they have carried out their duty of promoting the success of the company under the following headings:
  - long term consequences of a decision
  - interests of company employees
  - need to foster business relationships with customers and suppliers
  - impact of company operations on community and environment
  - maintaining a high reputation for business conduct
  - act fairly between members of the company
- 3) Article 15.2 describes how the Company is to apply donations “towards the general purposes and benefit of the Company....”
- 4) In the Memorandum (4) it says “The income and property of the Corporation whencesoever derived *shall be applied solely towards the promotion of the objects of the Corporation...*”