

Appendix IV (a)

Investment Committee's Report to Council on ESG and Sustainability

June 2023

1. OU Investment Policy Statement

The University's Investment Policy Statement was approved by Council in November 2021. This document describes how the University manages its investment assets and is available on its website: [OU Investment Policy Statement](#).

2. Governance and oversight

Council is the trustee of the University's investments and it is bound by its fiduciary duties to ensure that investments are managed in accordance with the University's charitable objectives. The University holds a large amount of funds on trust to be applied for specific purposes narrower than the University's general purposes of teaching and research – for example for professorial chairs, lectureship posts, scholarship schemes, student bursaries, and academic prizes. As trustee, the University, acting through Council, has ultimate responsibility for these trust funds and their administration.

Council delegates the strategic oversight and supervision of its investments to the Investment Committee; except where investments are the responsibility of the Finance Committee or other bodies; and those held by Societies or Oxford University Press (OUP). Council's key responsibilities are to set suitable investment objectives and, where relevant, distribution policies, as advised by the Investment Committee.

2.1 Investment Committee

The Investment Committee is responsible for supervising the management of the University of Oxford's investment assets, as delegated to it. Full details of the Investment Committee's responsibilities and membership can be found in [Council Regulations 15 of 2002, Part 23: The Investment Committee](#).

There are two sub-committees of the Investment Committee: the Valuation Committee and the Ethical Investment Representations Review Subcommittee (EIRRS). EIRRS considers representations concerning ethical or socially responsible investment relating to the Investment Policy Statement, and its responsibilities and membership can be found [Ethical Representations Review Sub Committee](#)

For avoidance of doubt, the Investment Committee is not a regulated entity. It sets policies and guidelines but does not make individual investment decisions. Oxford University Endowment Management is the discretionary investment manager of the Oxford Endowment Fund and the University's Capital Account.

2.2 Oxford University Endowment Management

OU Endowment Management (OUem) is a commercial operating subsidiary of the University of Oxford. OUem is authorised and regulated by the Financial Conduct Authority and is an Alternative Investment Fund Manager under the Alternative Investment Fund Managers Directive (AIFMD). OUem has a Board of Directors and two sub committees for Audit and Risk Management and Remuneration.

3. University's Investments

The University does not have one pool of investment assets; instead, it chooses to manage specific pools of capital according to their time horizon, risk tolerance and liquidity requirements. In doing so it separates perpetuity capital from that which has a requirement to be drawn down more regularly. The University invests its perpetuity capital in the Oxford Endowment Fund and maintains a separate account for its expendable capital, the Capital Account.

The Capital Account comprises ownership of units in an equity index fund and a bond portfolio. The bond portfolio is a separate account, where assets are held in the name of the Chancellor, Masters and Scholars of the University of Oxford. In this account, the University does not own any equities directly.

In addition to the Capital Account, the University owns units in The Oxford Funds, known as the Oxford Endowment Fund.

The Oxford Endowment Fund is a unitised vehicle and the University's trusts invest in The Oxford Funds: Collegiate Feeder fund. This is a unitised pool set up under the 1943 Universities Trusts Act and the University is the Trustee. This fund is open to any trust whose activities are associated with the University of Oxford. In addition to the central University there are eight independent trusts and 30 colleges invested. There is also a Non-Collegiate Feeder fund for other UK charities. Both of these funds invest in turn in The Oxford Funds: Endowment Master Fund. The Endowment Master Fund is a Charitable Unauthorised Unit Trust and it is this vehicle which owns the investments (which are mainly interests in pooled funds).

4. ESG and sustainability

The Investment Committee has one member appointed to have recent and relevant expertise in environmentally sustainable investment. Reporting to the Chair of the Investment Committee, their role is strategic oversight of sustainability, including reviewing compliance with specific ethical restrictions and progress on net zero targets.

a) Engagement on Net Zero and Biodiversity Net Gain

The University is committed to ensuring its investments are part of an integrated approach to achieving GHG emissions net zero and biodiversity net gain by 2035, in line with broader sustainability targets across the University. To help achieve net zero, the University will use the Oxford Martin Principles on Climate-Conscious Investment as an engagement framework, with the aim of having net zero business plans across its entire portfolio of investments. OUem has committed to supporting the Taskforce for Climate-Related Financial Disclosures (TCFD) and uses this framework for climate-related reporting.

The University recognises the importance of engagement to identify, avoid and reduce, where applicable, investments' impact on biodiversity over the long term. In early 2022, OUem became a member of the Task Force for Nature-Related Financial Disclosures (TNFD) forum. The release of version v1.0 of the full TNFD framework for market adoption will be in September 2023.

b) Voting

Rather than invest in individual companies, the University own units in the Oxford Endowment Fund or, for the Capital Account, it owns units in pooled vehicles or may have segregated accounts.

c) Ethical Investment Restrictions

The University has chosen at various instances to place restrictions on sectors in which it will not invest on ethical grounds:

- Direct investment in companies which manufacture arms that are illegal under the Munitions (Prohibitions) Act 2010 or the Landmines Act 1998.
- Direct investments in tobacco companies (as defined by UK Cancer Research).
- Direct investment in any fossil fuel exploration and extraction companies, including: coal, oil and gas exploration and extraction; in addition to a ban on thermal coal and oil sands.
- Investment in funds which invest primarily in the above listed categories of companies.

5. Annual Reporting Requirements

In 2020, University Congregation passed resolutions regarding fossil divestment and net zero. These resolutions include aspects of policy, implementation and reporting. These are found [here](#) and require the Investment Committee to report to Council annually in a public document on the following:

- (a) Voting
- (b) compliance with specific ethical restrictions and divestment
- (c) engagement and progress towards net zero targets, with reference to University research when appropriate
- (d) and an annual review of any remaining fossil fuel investments for evidence of Paris- and IPCC-aligned hard net zero plans
- (e) The Investment Committee will also provide an update on OUem's progress on communicating a restriction to fund managers which may hold fossil fuel companies
- (f) OUem reports on their actions in the event a fund manager continues to own fossil fuel companies which do not have a net zero plan. This is reported alongside an overview of sustainability.

6. Annual Report on University's Investments

6.1 Capital Account

a) Voting

For the Capital Account, the University owns equities via units in a global index fund, it does not own shares in publicly listed companies and therefore does not have the ability to vote in Annual General Meetings. The University does own corporate and government bonds, but these do not have voting rights.

b) Compliance with specific ethical restrictions and divestment

The University's equity investments are held in an MSCI World index tracker which screens out fossil fuels and other restricted investments set out in 4 (c) above, developed by OUem in conjunction with a global index fund provider. For the bond mandate the discretionary investment agreement includes a ban on direct investments in all restricted areas.

As at 31 December 2022, there were no direct or indirect holdings in the restricted investment sectors.

c) Engagement and progress towards net zero targets, with reference to University research when appropriate

As the University does not own shares in companies, all engagement activities are carried out by OUem at the investment manager level. Understanding a manager's approach to ESG Risk Management and in particular climate change is one of their key areas of due diligence and ongoing evaluation. OUem share the OM Principles for Climate-Conscious Investment with all managers.

Since last reporting, the manager of the global index fund has continued its focus on ESG, with net zero an engagement priority across product lines. Environmental engagements totalled 2,058 in the 2021-2022 proxy year, including voting, where the manager voted against management at 234 companies and against 176 directors on climate risk related concerns. In 2022, the manager identified a list of approximately 1,000 carbon-intensive public companies that represent nearly 90% of the global scope 1 and 2 greenhouse gas ("GHG") emissions of the manager's clients' public equity holdings. The manager noted companies made significant progress in disclosing how they identify and manage climate-related risks and opportunities, and, as a result, were more supportive of management in its voting at shareholder meetings in the 2021-2022 proxy year than the 2020-2021 proxy year. Beyond engagement, during 2022 the manager published its 2030 net zero statement, within which it has estimated that approximately 25% of firmwide AUM is invested in issuers with science-based targets or equivalent, anticipating this to increase to 75% by 2030. For the global index fund itself, weighted average carbon intensity is published at 83.0 tCO₂/\$m sales for 12 months to December 2022 compared with 161.0 tCO₂/\$m sales for the MSCI ACWI.

The bond manager is a member of the Net Zero Asset Managers initiative (joined 2021) and continues to engage in line with this initiative. In doing so, the manager is committed to achieving net zero emissions by 2050 across firmwide AUM. The manager is currently setting an interim target for 2030 and will disclose progress through TCFD reporting. The manager continues to integrate environmental considerations in both sovereign and corporate credit strategies; this includes work on pollution, water,

and climate for sovereigns, and work on pollution, supply chain management, and climate for corporates.

- d) Review of any remaining fossil fuel investments for evidence of Paris- and IPCC-aligned hard net zero plans.

The equity index tracking fund screens out fossil fuels and other restricted investments. For the bond mandate the discretionary investment agreement includes a ban on investing in the bonds of fossil fuel extractors and therefore no review is required.

- e) OUem's progress on communicating a restriction to fund managers which may hold fossil fuel companies

For the Capital Account, the University invests in a global index tracking and a bond account. The index tracking fund provider screens out fossil fuels and other restricted investments. For the bond mandate the discretionary investment agreement was updated to include a ban on direct investments in fossil fuel extractors, alongside other restrictions ie. weapons illegal under UK law, tobacco and thermal coal and oil sands.

- f) OUem report on their actions in the event a fund manager continues to own fossil fuel companies which do not have a net zero plan.

The University does not own any fossil fuel companies directly, the index tracking fund screens out any fossil fuel companies and for the bond mandate, an express prohibition is made in the investment management agreement. The bond manager is required to provide written confirmation of their compliance with their agreements to OUem, and OUem are required to provide confirmation of compliance to the University's Investment Committee.

6.2 The Oxford Endowment Fund

The University owns units in the Oxford Funds: Collegiate Feeder fund. This is known as the Oxford Endowment Fund (OEF) and the University invests alongside over 40 other investors. OUem is the manager of this fund which is a charitable unauthorised unit trust and an Alternative Investment Fund. OUem has published the OEF Report 2022 on its website: [OEF Report](#). This includes detailed information of engagement activities and the OEF's exposures to fossil fuel investments, alongside reporting against the TCFD framework. This report incorporates, where applicable, the above reporting requests.