

# University of Cape Town

University Panel on Responsible Investment (UPRI)

## Responsible and Sustainable Investment Policy

==-- Version 1, Approved by UCT's Council on 5 December 2020

### PREAMBLE

The University of Cape Town's Responsible and Sustainable Investment Policy sets out the approach taken by the University regarding the stewardship of its financial endowments<sup>1</sup>. The Council of the University is ultimately responsible for that stewardship, yet has delegated that responsibility to the Joint University/UCT Foundation Investment Committee (the JIC) which reports to the Trustees of the UCT Foundation, and the University Council.

Specifically, this policy provides greater detail on how the University will integrate environmental, social, and corporate governance (ESG) factors into its investment decision-making and monitoring processes. The policy therefore represents an extension and amplification of the *Responsible Investment Beliefs for the University of Cape Town Council and Foundation*, a copy of which is attached as Appendix A.

To this end, the University has established the University Panel on Responsible Investment (UPRI) to provide advice and guidance to the Council (and through the Council, the trustees of the UCT Foundation, and the JIC) on matters relating to Responsible Investment. UPRI's current Terms of Reference are attached as Appendix B. This policy seeks to amplify and consolidate the Responsible Investment Beliefs and UPRI's Terms of Reference and mode of operation.

The first section of the policy establishes the overall **principles** that govern UCT's approach to Responsible Investment; the second sets out the **process** whereby Responsible Investment decisions are made, the locus of decision-making, and the roles of UPRI, the JIC, and the Trustees. The **implementation** of Responsible Investment principles and processes at UCT will be subject to additional policy frameworks to be adopted by these relevant stakeholders to align with this policy.

The policy has been written with the University's Mission, Vision and Values in mind, and will continue to be informed by these as they evolve. The University's strategic *Vision 2030*, with its focus on sustainability, on producing research that answers the complex problems of today and tomorrow, and thought leadership on social justice is a crucially important aspect that will continue to shape the work of UPRI. Ongoing alignment between the University's strategic direction, its teaching and research, its operations, and its financial stewardship is required.

The policy will be reviewed biennially by UPRI, and reaffirmed by Council in consultation with the JIC and Trustees.

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<sup>1</sup> Financial Endowments include the financial assets of the University, including the UCT Foundation, the UCT Account and UCT cash portfolio, as well as the Allan Gray donation, the Isaac Greenberg Trust Fund and the Shari'ah portfolio.

## PRINCIPLES

### Overall Commitment and Scope

The University Council, and through it the JIC and UPRI, commit themselves to consider material ESG and Responsible Investment factors in the course of our analysis, decision-making, and monitoring of our investments to the extent reasonably practical under the circumstances. For the purpose of this policy, UCT defines material ESG and Responsible Investment factors as those that we have determined to have, or have the potential to have, direct impacts on an asset’s ability to create, preserve, or erode economic, environmental, and social value.

This policy applies to all asset classes, sectors, and markets in which the University invests.

### Responsible Investment

The Principles on Responsible Investment (UNPRI) consortium is a non-affiliated entity based in the UK, established in 2005 to give content to then-Secretary General Annan’s call for greater social responsibility among institutional investors, and is supported by – but not part of – the United Nations System. Since their founding, they have placed themselves at the global forefront in setting the RI agenda.

UNPRI defines Responsible Investment as “a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership.”<sup>2</sup> For them, approaches to RI typically combine elements of two areas: ESG incorporation and active ownership of investment; as per the figure below.

CONSIDERING ESG ISSUES WHEN BUILDING A PORTFOLIO (known as: ESG incorporation)			IMPROVING INVESTEEES' ESG PERFORMANCE (known as: active ownership or stewardship)	
ESG issues can be incorporated into existing investment practices using a combination of three approaches: integration, screening and thematic.			Investors can encourage the companies they are already invested in to improve their ESG risk management or develop more sustainable business practices.	
Integration	Screening	Thematic	Engagement	Proxy voting
Explicitly and systematically including ESG issues in investment analysis and decisions, to better manage risks and improve returns.	Applying filters to lists of potential investments to rule companies in or out of contention for investment, based on an investor’s preferences, values or ethics.	Seeking to combine attractive risk-return profiles with an intention to contribute to a specific environmental or social outcome. Includes impact investing.	Discussing ESG issues with companies to improve their handling, including disclosure, of such issues. Can be done individually, or in collaboration with other investors.	Formally expressing approval or disapproval through voting on resolutions and proposing shareholder resolutions on specific ESG issues.

Source: UNPRI

Even though UCT has not signed on to the United Nations Principles of Responsible Investment (UNPRI), UCT will nevertheless strive to comply with their Six Principles:

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

<sup>2</sup> <https://www.unpri.org/pri/an-introduction-to-responsible-investment/what-is-responsible-investment>

6. We will each report on our activities and progress towards implementing the Principles.

At present, the portfolio managers appointed to manage the financial endowments of the University are generally expected to integrate ESG considerations into their decision-making processes (the left-most column of the figure). However, UPRI regards this as a baseline for RI: the other four elements described in the figure above should – at the very least – not be excluded from consideration; and preferably be carefully considered for incorporation into the several investment strategies governing the financial endowments of the University.

As a body established by the University Council, UPRI has adopted an expansive view of RI, expanding not only the impacts on the economic value of the investment but also the impacts that ESG factors have on the environment and society. Overarching this is a commitment to the global development agenda set out through the United Nations' Sustainable Development Goals, and the University's articulation of a vision of contributing to the creation of a fair and just society, in which the University seeks to redefine and co-create a sustainable global future.

#### UCT's approach to Responsible Investment

As a long-term investor, UCT is focused on ESG factors that may affect the performance of our investments, now and in the future. We strive to include material ESG criteria in our due diligence, investment analysis, monitoring, asset management, and decision-making processes. We believe that these considerations and processes are aligned with our mission to provide strong long-term investment results to the University.

A three-pronged approach guides our responsible investment work and priorities: ESG integration; active ownership; and collaboration.

##### 1. ESG Integration

UCT believes that ESG integration is a tailored process by asset-class. We are focused on ESG factors that may have a material impact on our investment risk or return, or on the social and economic impact of that investment. How we consider ESG issues in our investment decisions, analysis, and monitoring varies by asset-class and investment strategy.

For our equity, bond, and property investments, we aspire to integrate and manage ESG issues throughout the investment cycle. Our asset managers are expected to incorporate ESG-related factors in their operational due diligence framework to assess prospective investments in public equity, private equity, absolute return, property, and natural resources.

During the pre-investment process, we insist that our appointed fund managers conduct research on prospective investments to assess their ESG risks and opportunities. We review how our fund managers integrate material ESG factors into their investment processes, and how they report on ESG-related issues and activities. We also meet with our fund managers to further understand how they are managing ESG risks and opportunities. The identification of these risks and opportunities is an expected outcome of the due diligence process and supports our investment decision-making. After making an investment, we continue to monitor identified ESG risks and maintain a dialogue with external managers to ensure effective oversight.

For our direct investments in natural resources UCT is committed to environmental stewardship and social responsibility. These actions may include mitigation strategies regarding the investments held, such as through the use of thematic or impact investments in particular areas or industries.

### *Ethical Considerations and Investment Screening*

UCT is committed to RI in its investment activities and will seek to deploy the courses of action outlined by UNPRI where appropriate, and where consistent with the University's values and mission. Of these, screening (which also include capping or limits on any particular investment or class of investment on responsible or sustainable investment grounds) of any kind is the most contentious. Screening requires very careful consideration on account of the manifold direct and indirect impacts of such action.

Universities across the world have taken widely divergent approaches to screening. Some have placed negative screens on certain classes of asset, or on particular industries, while others have resisted calls for negative screens of any kind. Similarly, some universities have sought to positively screen investment opportunities, by means of seeking out particular assets or industries in which to invest, on account of their positive social impacts, such as those focused on decarbonisation.

In contemplating and deliberating any form of screen, the following aspects must be considered:

1. The ultimate owners and beneficiaries of the investments held. For example, a distinction would have to be drawn between a retirement fund (whose assets are invested on behalf of its members) and a university endowment (whose assets are held to advance the university's mission);
2. Whether any proposed screen is consistent with the vision and mission of the university, and the mechanism(s) whereby such a screen might contribute towards creating a society that is closer to that desired in the university's vision and mission;
3. The materiality of any likely impact on the risk-return profile of the investments held, and how competing priorities between financial and non-financial considerations should be balanced. The consideration of the former falls, in terms of UPRI's Terms of Reference, on the JIC, and the Trustees; the decision of balancing of competing priorities arising from a recommendation from UPRI falls to the Council and the Trustees of the Foundation;
4. The consequences (positive or negative) of implementing a proposed screen in terms of the University's public standing or reputation.

Although the above considerations contain within them a caution against the use of screens, it is nevertheless recognised that occasions may arise when the activities of particular companies, or entire economic sectors, are so inconsistent with the university's articulated values as to warrant institutional dissociation from those activities. Where investment restrictions or limitations are imposed, these will apply to separately-managed accounts operated by our mandated investment professionals where UCT has line-of-sight of the individual companies' invested in and their ESG factors. These restrictions cannot practically be applied to investments in collective investment vehicles where UCT is not the sole investor although, in such situations, the JIC will seek to appoint managers of collective investment vehicles whose policies are aligned with those adopted by the University.

### *2. Active Ownership*

Being an engaged owner is an important part of UCT's approach to sustainable investment. We believe in supporting good corporate governance in the companies and other assets in which we are invested and, where appropriate, we seek to work with others to influence change. We perform our active ownership role on behalf of the University in two primary ways:

### *Engagement*

As an investor, UCT recognises that a company's ability to identify and manage ESG risks effectively may affect a company's valuation.

### *Proxy voting*

As an investor in publicly-traded companies, UCT will establish mechanisms to more effectively exercise its right to vote on shareholder resolutions, many of which present issues related to environmental, social, and governance matters.

### *3. Collaboration*

In keeping with the fifth principle of the UNPRI, collaboration with like-minded investors is important to our work. The University will, where appropriate and feasible, join initiatives that are aligned with — and help guide — our approach to sustainable and responsible investment.

Similarly, UCT (and UPRI in particular) will work with fellow investors and market participants to advance shared goals and develop and define sustainable and responsible investment best practices. Important within this is that UCT will seek to build partnerships with other tertiary education-sector endowments in South Africa to identify possible areas of mutual collaboration and engagement.

## PROCESSES AND ROLE

### *The role of UPRI*

UPRI has been established by, and is ultimately accountable to, the University Council as an advisory body.

UPRI's mission is to act as a 'sensing organ' for the views and aspirations of the broader university community as they relate to responsible and sustainable investment. UPRI will canvass and receive the views of the UCT community on these matter. Its guidance and recommendations on matters related to Responsible and Sustainable Investment are conveyed to the JIC, on which the UPRI is represented by the Chair of UPRI.

UPRI's role is not to replace or substitute the overall responsibility delegated to the university's mandated investment professionals to ensure that ESG factors are considered and integrated into the investment decision-making process. The mandated investment professionals are, and remain, accountable to the JIC for the implementation of JIC, Trustees' and University Council decisions on matters relating to responsible and sustainable investment.

After formulating any guidance or recommendation, UPRI will seek the input of the university's Institutional Forum before presenting that to the Council. The Institutional Forum may not prevent UPRI from submitting its views to the Council, but the view of the Institutional Forum on each matter will be recorded in the documentation presented to the Council.

While the final decision and responsibility for any course of action proposed by UPRI must belong to those with a fiduciary responsibility for the assets, UPRI must, as part of its advocacy role, publicly disclose recommendations made to the University Council.

### *The role of the JIC and UCT Foundation Trustees*

The role and scope of the JIC and the UCT Foundation Trustees are determined by the University Council, and are encapsulated in the Terms of Reference of the JIC, the Deed of Trust of the UCT Foundation, and the Institutional Statute of the University of Cape Town.

UPRI's guidance and recommendations are not binding on the JIC, the Trustees of the UCT Foundation, or the University Council, the latter two entities having ultimate fiduciary responsibility for the assets held by the UCT Foundation, except to the extent that the UPRI policy is adopted by these parties. The final decision on any recommendation rests with the Trustees and the Council. In keeping with UPRI's Terms of Reference, the JIC will be responsible for considering the investment risk and reward impact of any proposals emanating from UPRI, and providing advice and guidance in this regard to the Council and Trustees. The JIC will take independent advice as appropriate in order to arrive at its recommendations.

Drafted by the UPRI and approved 30 November 2020

Approved by Council 5 December 2020

## APPENDIX A

### Responsible investment (RI) beliefs for the University of Cape Town Council and Foundation

#### Preamble

Given the long-term nature of the University, we are predominantly a long-term investor. We wish to encourage environmental, social, and corporate governance best practice in the companies in which we invest, as we believe this will deliver the best risk adjusted long-term returns.

The Council and Foundation have agreed and documented their current main investment beliefs which guide how the various asset pools are invested.

These Responsible Investment beliefs should be read in conjunction with the current Investment Philosophy (IPS) adopted by the Foundation and the JIC. As the proposals come into operation and ESG Policy decisions are made within the remit of the proposed structure the RI Policy will evolve.

Building on this existing investment policy, a set of RI beliefs have been developed. These RI Beliefs provide a guiding framework for RI decision-making and help to articulate why we should be focusing on ESG issues alongside other investment factors. The beliefs are set out below:

#### RI Beliefs

1. ESG issues are not always captured by the traditional investment appraisal process (i.e. in determining risk and return expectations) but can have a material impact on long term investment returns
2. Evaluating ESG portfolio risks is a prudent addition to the long-term investor's investment process and is aligned with fiduciary duties.
3. ESG consideration can create attractive investment opportunities across asset classes and investment styles
4. A proactive approach to evaluating ESG risks and opportunities is more likely to result in long term benefits for the investor.
5. The execution of ownership rights including engagement with companies can influence risks and returns.
6. Investors should primarily use their shareholding rights to encourage improvements in ESG performance and disinvestment should be a last resort.
7. The University reviews these RI Beliefs regularly along with its main Investment Beliefs to ensure they continue to reflect our knowledge and experience in this area.

It should be noted that the Investment Policy and the RI beliefs will evolve over time as the structure, process and proposals contained in this policy are implemented.

## APPENDIX B

### University Panel for Responsible Investment (UPRI)

#### Terms of Reference

The University Panel for Responsible Investment (UPRI) is a body constituted by the University Council to provide input to Council on Responsible Investing.

The Panel is tasked to

1. Monitor global trends and activities in responsible investing.
2. Provide a forum for the exploration of responsible investment issues in relation to the University.
3. Consider proposals from the University community and other stakeholders regarding specific responsible investment concerns.
4. Assess the academic, financial and reputational impacts on the University, of any proposed ESG intervention and to review this with the appropriate UCT structures.
5. Develop recommendations for specific actions to be considered by the Council and Trustees of the Foundation in relation to already- approved policies.
6. Develop recommendations for investment policy adjustments for consideration by the JIC and, if agreed, to be adopted by the Foundation and Council for policy to be adapted.
7. Respond to specific requests for responsible investment advice.
8. Propose to Council, with full analysis of any UCT implications, Membership by UCT of International Codes of Practice and Organizations. If agreed such Membership to be initiated by Council.
9. Agree with the JIC the reporting and disclosure requirements flowing from responsible investing implementation.

UPRI's work, while advisory to the University Council, must be responsive to the broader university community: both the direct university community of staff and students, as well as to the society and community within which the University exists. This will require that UPRI be both proactive and reactive.

Proactively, UPRI may internally identify matters relating to the University's responsible and sustainable investments that are deserving of attention or requiring the formulation of guidance and recommendations.

Reactively, and to be responsive to the views of the broader university community, UPRI must establish mechanisms whereby it can receive input relating to the University's responsible and sustainable investment, including calls for specific actions relating to the University's investments. These calls for action could relate to any aspect of responsible investment as outlined in the United Nations' Principles for Responsible Investment.

Irrespective of the route by which a matter comes before UPRI for its consideration, UPRI will follow an open, thorough, and transparent process.



UPRI will determine first whether any matter before falls within its remit, and if so, it will be deliberated within UPRI. As UPRI is expected to provide well-reasoned and informed advice and guidance to the Council, on any matter before it, UPRI will take all necessary steps to ensure that its deliberations draw on the expert advice and counsel available within the University, external evidence and resources, as well as the view of civil society organisations where appropriate. UPRI may also request that a proposer of a particular course of action provide UPRI with relevant information and/or evidence to assist with its deliberations.

UPRI will further take independent advice as it deems appropriate in order to arrive at its recommendations. The Council and Trustees will be responsible on deciding on whether a recommendation is implemented and will advise the JIC accordingly.

UPRI, with the agreement of the Council, Trustees, and the JIC, will seek to put such information relating to responsible investment in the public domain as is necessary to enhance engagement between the Panel and the broader university community.

UPRI will maintain lines of communication with other University entities, including academic and administrative units, and the office of UCT's Director of Sustainability to enhance the alignment between the University's adopted RI policies and the activities of the University.

The UPRI is responsible to and funded by the Council. Administrative support to UPRI will be provided by the Office of the Chief Operating Officer.

#### UPRI membership

UPRI is composed of the following representatives:

1. Two members of the University Council appointed by the Council;
2. Two members of University Faculty elected by the Senate;
3. Two student representatives, an undergraduate and a post Graduate Student (as nominated by the SRC);
4. Two members of the staff (as nominated by the staff);
5. The Vice-Chancellor or his/her nominee;
6. The Director: Environmental Sustainability in the Office of the Chief Operating Officer
7. Up to two other members as might be co-opted by the Vice-Chancellor from time to time.

As UPRI is expected to seek expert guidance, either internal or external to UCT, UPRI at its discretion may offer a standing invitation to additional experts, who may help inform or advance the work of UPRI.

The Chair of UPRI will be appointed by Council on the advice of the Vice-Chancellor, and will serve as an ex-officio member of the JIC.

Terms of office of members of UPRI will follow the standard UCT cycle, i.e. four-year terms commencing on 1 July 2020.