

## **Sustainability Plan 2017-2020**

### **Process for Development of the Sustainable Investment Framework**

#### **Introduction**

The University's Sustainability Plan 2017-2020 specifies that the University will develop a sustainable investments framework (SIF), as follows:

“Develop by end-2017 a sustainable investment framework for assessing material climate change risk and how this risk has been incorporated into the risk and return assessment of whether to buy or sell underlying investments. Incorporated within this assessment, the framework will set out the criteria for divestment from and investment in companies in this regard. The framework will include as far as possible mechanisms to assess/measure a company's emissions intensity, emissions reduction plans, alignment to the outcomes of global climate change agreements (such as COP21), investment in/transition to renewable energy, exposure to and impact of other material climate change related risks, and therefore the level of risk to the University's investment portfolio.”

The Plan further requires that the process for developing the framework will be determined and communicated at the latest by the end of quarter 1 2017. The purpose of this paper is to set out that process.

It is recognised that this is a relatively new area of investment theory and practice is developing as the underlying investment risks and opportunities associated with climate change and other sustainability matters become more fully understood. Given this, the University will draw on the work being undertaken globally by investors, fund managers and advisors and tailor this to develop a framework that will be fit for purpose for the University. Best practice and the University's position will evolve as the impact and understanding of climate change risk and opportunities evolves. Therefore, the SIF will need to be flexible and adaptable. It may also be extended in future to other areas of sustainable investment beyond climate change.

#### **Process**

The process the University will adopt to develop the SIF is as follows:

1. Framework
  - a. Chancellery Finance is responsible for developing the SIF and the Vice-Principal Administration & Finance and CFO is the accountable executive
  - b. An external expert advisory firm (or individual) will be appointed to advise Chancellery Finance
  - c. Sustainability Executive will provide input and provide a mechanism for stakeholder views to be fed into the process
  - d. Internal University expertise (eg Dr Ben Neville, Faculty of Business & Economics) will be engaged in the process
  - e. The University's primary fund manager, VFMC, will be actively engaged in the process, as will where possible VFMC key clients
  - f. The SIF will be considered and endorsed by University Executive, Investment Management Committee and Finance Committee
  - g. The draft SIF is targeted for committee consideration in quarter 3, 2017, with feedback and finalisation in quarter 4, 2017.
2. Assessment of best practice and benchmarking

- a. Work being undertaken on this matter by other major investors globally (eg NAB, NZ Super, PGGM) will be assessed and drawn upon where relevant
  - b. Other major institutions globally (eg Oxford, Cambridge, Manchester, Birmingham, Harvard, Stanford, MIT, Chicago, other Go8s) will be contacted to assess how they are addressing this issue
  - c. Work being undertaken on this matter (eg on valuation principles, investment approaches) by global advisory firms (eg McKinsey, UBS Asset Management, Russell Investments, Mercer) will be sourced and considered
  - d. Research being undertaken on this matter by global regulators and other relevant bodies (eg Sustainability Accounting Standards Board, Accounting for Sustainability Project, International Integrated Reporting Council) will be evaluated
  - e. The level of information and/or reporting available from companies will be considered
  - f. The reporting available from fund managers will be considered
3. Alignment with current investment approach
- a) Mission and beliefs (eg alignment with the Statement of Investment Objectives and Policy)
  - b) Risk management plan (eg modelling to test existing portfolio resilience and whether the SIF meets portfolio set risk tolerances)
  - c) Portfolio construction (eg modelling to ensure investment objectives are still achievable post incorporating the SIF developed)
  - d) Portfolio implementation (eg assessment of current fund managers' capacity to implement the SIF)
  - e) Monitoring and reporting (eg ensuring the SIF is appropriately applied and ensure the overall process remains mission consistent)

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