ESG Consultative Group

Final Report

June 2025

Concluding Report on LSE's ESG Review Process

ESG Consultative Group

The ESG Consultative Group is a group of volunteers, formed in October 2024, comprising 3 students, 3 professional services staff, and 3 academic staff.

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I. Introduction

This concluding report documents the ESG Review Process from the perspective of the Consultative Group (CG). It serves as a transparent account and record of the CG's activities over the 2024-25 academic year. We have also prepared it as a resource for future reviews of LSE's investment policy.

This report follows in four main sections. Section II describes and explains the activities of the CG during the ESG review process. The next section lists and describes our outputs, which are included as appendices at the end of this document. Section III, *Critical and Unresolved Issues*, is an analysis of what we consider the outstanding issues that prevent a more holistic view of the ESG policy. This section is meant to distil key points of disagreement between the RG and the CG. Finally, we conclude with our reflections on the ESG Review Process, and the importance of establishing a robust investment policy with ethical and sustainable commitments.

II. Summary of the ESG Review Process

During the 2024-25 academic year, LSE commenced a review of its ESG policy. This review responded to calls for divestment from the LSE community following the May 2024 publication of the *Assets in Apartheid* report by the LSESU Palestine Society. In July 2024, LSE's Council announced its rejection of the report's recommendations but agreed to support a review of LSE's ESG policy, particularly regarding investments in arms manufacturers and fossil fuel companies.

To do this, Council appointed a Review Group (RG) to give them recommendations on a future ESG policy. The eight members of the RG include independent members of Council, the Chief Financial Officer, LSE's independent advisor to the Investment Sub-Committee, and academic staff from the Law School, Grantham Research Institute on Climate Change and the Environments, and the Investment Sub-Committee.

In parallel, LSE opened a consultation process with the LSE community. This included convening a Consultative Group (CG)—comprising 3 students, 3 professional services staff, and 3 academic staff—who would provide the RG feedback on its work and gather different perspectives from various social groups within LSE regarding the ESG policy. The Student Union was responsible for selecting the 3 students. The six professional services staff and academic staff were self-nominated and then selected by a stratified random sampling process.

The CG was assembled in October 2024 and given the following Terms of Reference:

- "The purpose of the Consultative Group is to advise the Environmental, Social and Governance Policy Review Group on its review of the School's ESG Policy.
- In so doing, the Consultative Group will:
    - Gain substantive and technical understanding of university endowments and associated subjects such as their governance, investment, and regulation.
    - In coordination with the Review Group, seek input from relevant stakeholders and other appropriate sources from across the School community.
    - Meet with representatives of the Review Group on a regular basis, not less than termly or more than monthly, for updates and to offer input. These planned meetings may be supplemented by written submissions from the Consultative Group if it deems this necessary or appropriate.
- It will complete the advisory process in time for the Review Group to report back to Council by the end of Spring Term, 2025.
- While drawn from staff and students, the Consultative Group is appointed to help inform LSE's ESG policy from a whole-School perspective: neither it nor its members are advocates for a previously determined position or for any particular group or constituency.
- Final decisions regarding LSE's ESG Policy are the sole province of Council; matters decided at the June 2024 Council meeting and reported in Council's memorandum of July 9, 2024, will not be revisited."

It was explained that these instructions were a baseline and could be interpreted as narrowly or widely as the CG saw fit.

During the 2024-25 academic year, the CG engaged in several activities to fulfil its responsibilities. We explain these below.

A. Internal Communications and Resource Gathering

After initial meetings in December 2024, which ascertained the potential scope of work and areas of research, the CG decided to meet weekly from February 2025. These regular check-ins allowed the CG to share updates, ideas, and plan outputs. This included gathering resources on past ESG reviews at LSE, academic articles on ESG policies, relevant LSE policies, ESG policies from other charities and higher education institutions, and relevant domestic and international legal frameworks.

These consistent meetings enabled the CG to establish a productive and collaborative working relationship that benefitted from the knowledges and perspectives of all members.

B. Information Sessions on LSE's Investment Portfolio

The RG arranged for three information sessions on LSE's endowment and investment portfolio with its independent advisor in November 2024. These were entitled as follows:

1. Portfolios Values, Comparative Endowments, Investment Risk and Return Targets, Sample Asset Allocation
2. Investment Manager Roles, Sources and Purposes, Fiduciary and Good Governance Rules
3. SRI and ESG Strategies: Implementation Progress 2015 to 2024

C. Public Events

The RG organised five public events that were open to LSE members. The titles and dates of the events were set by the RG and are listed below:

1	29 Jan 2025	Introduction to LSE's ESG Policy Review
2	25 Feb 2025	Social and Governance Workshop
3	24 Mar 2025	Net Zero Workshop
4	31 Mar 2025	Armaments Workshop
5	6 May 2025	Why does LSE's approach matter – ESG Policy roundtable

The first event was an overview of the endowment and investment considerations by LSE, delivered by the LSE's independent advisor. In content, it was similar to the introductory sessions provided by the RG to the CG.

The next three events were workshops focused respectively on Social and Governance, Net Zero, and Armaments. The RG asked the CG to provide briefing notes for these events. The CG drafted these and corresponding discussion questions. Each briefing note was shared with the RG who had the opportunity to make any edits, which were broadly minor. Both members of the RG and CG attended and participated in the workshops. Members of the CG took notes during the events and subsequently compiled them. These are provided in the appendices.

The last event was a roundtable discussion on why LSE's approach matters. On this event, there was disagreement between the RG and the CG on the purpose and content of this event. The RG designed the event as a forum to discuss the educational benefits of the endowment from stakeholders whose perspectives had not been featured in the ESG Review Process. The CG requested that the event still focus on the actual policy and also include other relevant stakeholders such as the Student Union, the LSE branch of the UCU, and members of LSE working on sustainability. This was rejected by the RG. Notes on this event are provided in the appendices.

D. Online Submissions

LSE arranged an online portal where members of the School could submit their perspectives on the ESG review process. The CG was asked to review this material and provide a summary of this for the RG. This is included as Working Paper 3: Report on ESG Policy Review Submissions in the appendices.

E. Meetings with Student Union

The CG met with representatives of the LSE Student Union on two occasions. The first was in January 2025 with members of the Student Union tasked with furthering the results of the referendum on divestment in 2024. The second was an open Student Union meeting in May 2025, where members of the CG fielded questions from students on the ESG policy review.

F. Meetings with External Colleagues in HE and Finance

CG members organised meetings with colleagues at other higher education institutions to discuss how their respective investment policies were progressing and the main procedural and substantive issues that have been raised through these efforts. Colleagues also conferred with personal contacts in the financial services sector.

G. Meetings and Collaboration with the RG

Establishing a working relationship with the RG was the most challenging part of this process and required much time and energy by CG members. This section describes how communications with the RG were structured and significant developments that occurred during meetings and email communications. During the course of these communications, it became apparent that the RG and CG held different expectations of the ESG Review Process.

The CG and RG met formally on four occasions, 22 January 2025, 6 February 2025, 28 February 2025, and 14 May 2025, lasting approximately one hour and in one case 30 minutes. There was another meeting in March 2025 between two members of the CG and a member of the RG. These dates were arranged by an intermediary appointed by the School, who acted as a liaison between the groups for much of the Review Process and provided key support to set up both groups. The CG also asked to meet with the RG on other occasions, particularly in April before the last public event, but this was not organised.

In addition to meeting, the RG and the CG have communicated via email. Initially this was done through the intermediary. Over time, the CG felt that it was necessary to communicate directly with the RG and began emailing the group directly. The CG also asked the RG if it could meet with LSE's asset managers, but this was rejected on account that enough expertise was represented within the RG itself.

Meetings were focussed on managing the ESG review process, the public events and the contents of the CG's Working Paper 1: Principle and Procedure: Preliminary Proposals to Strengthen the Investment Policy (attached in appendices). This document was produced early in Review Process by the CG; it proposed how to integrate international law in the ESG policy and establishing a formal mechanism for LSE members to bring concerns about investment to the Investments Sub-committee.

The RG engaged with this document, particularly through the 28 February 2025 meeting, which was largely spent discussing it. This meeting was followed by a side meeting between one member of the RG and two members of the CG in March which resulted in an email correspondence discussion international law. This is included in the appendices. In its final response, the RG has presented this exchange as one of the critical moments in its decision to reject the CG's recommendations. However, the key recommendation was for the RG to 'seek guidance from independent ethical investment advisers as to which options are available and practicable in light of the School's portfolio and capacity'. The CG suggested to begin with the MSCI ESG Controversies and Global Norms Methodology, which incorporates several international legal instruments. The CG enquired whether this had been done. The RG responded that such an assessment of the MSCI methodology would be made by its own members in the first instance, then by Stanhope Capital and JP Morgan. Such assessments have not been made available to the CG, nor are they mentioned in the RG's final report.

At the end of April 2025, the CG received the RG's official response to Working Paper 1. The 6-page document was largely a rejection of the proposals. It also included 6 points of "common ground" between the RG and the CG related to:

1. transparency
2. the dynamism of the ESG policy
3. a proposed public event where LSE members could hear a report about the endowment
4. collaborating with other universities on investment strategies
5. establishing mechanisms for the LSE community to share research related to the investment policy
6. an "induction package" to support incoming staff and student understand the endowment and the investment policy

The RG and the CG met on 14 May 2025 to discuss this document; Working Paper 2: Investment Policies of UK Universities: Exclusions and Fiduciary Duty; and Working Paper 3: Report on ESG Policy Review Submissions (the latter 2 prepared by the CG and included in the appendices).

At the start of the meeting, the CG was informed that it would be the last. This was surprising, as from the CG's perspective, there was still quite a bit of work to do. By this stage, the only document the CG had been asked to advise on was the RG's 6-page rejection of the CG's own proposal and 6 bullet points that were vague, not actually discussed in any detail between the two groups (particularly the last one), and, most importantly, were not related to the actual ESG policy.

During this meeting, it was also apparent that divestment and exclusions were non-starters for some RG members and had been since the onset of the ESG Review Process. There was also a surprising lack of clarity regarding on which grounds the RG would consider inappropriately "political" or "purely moral" investment decisions for LSE in relation UK charities law.

The CG expressed its concern that the RG had seemingly treated the ESG Policy Review as an exercise in upgrading the School's communications strategy, rather than to review the substance of the investment policy, given the RG's focus on educating the LSE community. The RG reassured the CG that they were working seriously and in the best interest of LSE. They explained they were working on their final report for Council and the

CG would have an opportunity to provide an appendix to it, in the form of a minority report.

After this meeting, King's College Cambridge announced a new investment policy that included the substance of what the CG had proposed in Working Paper 1 and subsequently discussed with the RG. On 23 May 2025, the CG wrote to the RG and requested a legal opinion from LSE General Counsel on the following:

"Considering:

1. the Review Group's terms of reference;
2. the constitution of a Consultative Group, comprised of 3 academic staff and 3 professional services staff selected by a stratified random sampling process, as well as 3 students selected by the LSE Student Union (LSESU);
3. the three Working Papers prepared by the Consultative Group:
    a. *Principle and Procedure: Preliminary Proposals to Strengthen the Investment Policy* (Working Paper 1, January 2025);
    b. *Investment Policies of UK Universities: Exclusions and Fiduciary Duty* (Working Paper 2, April 2025);
    c. *Report on ESG Policy Review Submissions* (Working Paper 3, May 2025);
4. the Consultative Group responses to questions from Mike Ferguson (20 March 2025);
5. the four summaries of stakeholder workshops, prepared by the Consultative Group on request of the Review Group;
    a. *Notes on Governance and Social Investment Workshop*;
    b. *Notes on Net Zero Investment Workshop*;
    c. *Notes on Armaments Investment Workshop*;
    d. *Notes on Final ESG Review Public Event*;
6. a motion passed by LSE UCU branch on 27 November 2023 that specifically supports the School's divestment from weapons manufacturing;
7. a student referendum, dated 4 June 2024, wherein 89% of voters supported the LSESU to seek dialogue with LSE leadership for 'full and meaningful divestment from fossil fuels and weapons, including indirect investments';

8. express endorsement by 32 LSESU societies, 497 LSE staff (by petition), 52 Jewish students and staff (by petition), and 895 alumni (by petition) of the May 2024 report on *Assets in Apartheid: LSE's Complicity in Genocide of the Palestinian People, Arms Trade, and Climate Breakdown* (May 2024), which called for LSE, inter alia, 'to divest from all companies involved in crimes against the Palestinian people; extraction and/or distribution of fossil fuels; proliferation and/or manufacture of arms; and financing fossil fuel companies and/or nuclear weapons producers'; and
9. any available evidence of the Review Group's direct engagement with relevant stakeholders and other appropriate sources;

may LSE lawfully amend the ESG Policy to include language that is equivalent in substance to the King's College Cambridge Responsible Investment Policy (May 2025), particularly Section 3.1?"

The RG has responded that they have sought legal advice, though not necessarily on the CG's requested issues.

On 6 June 2025, the CG received the RG's report to Council and was given the opportunity to provide a minority report. The CG declined to provide a minority report and instead has requested that this concluding report and all the CG outputs (listed in Section III and attached as appendices) be sent to Council.

At the time of writing this concluding report, we cannot share the full details of the RG's report except to convey that it is well short of what we all expected to achieve during this Review Process. There are substantive disagreements between the RG and the CG on most issues. Many of these were already addressed by the CG in Working Paper 1 and, indeed, have been presents in discussions of LSE's investment policy for over a decade. During this period the School, and now the RG, have rehearsed the same axioms regarding a preference for engagement over divestment. But LSE has never directly engaged with companies, since it does not invest in equities directly. The CG summarised the possible cases for divestment from companies that engaged in unethical or unsustainable practices in Working Paper 1, including to avoid investments that contradict an institution's reputation, and demonstrated the range of policies adopted by other UK universities in Working Paper 2. The RG has never confronted this evidence, whereas its final report rejects a straw-manned case for divestment because it seldom affects a firm's stock price. This is just one illustration of the CG and the RG talking past each other.

In our view, the RG has missed a prime opportunity to address the School's investment policy in a comprehensive manner and has instead proposed further activities for review. We explain some of the critical and unresolved issues in Section IV.

However, in the event that Council or other LSE stakeholders wish to expedite the resolution of this review, the CG has drafted an Ethical and Sustainable Investment Policy that integrates the full range of perspectives that were elicited by the consultative process, including the RG's report. This is included in the appendices and is released along with this report.

III. Outputs of the CG

The CG has produced several documents and sent these to the RG. They are attached in the Appendices section that follows this report.

The following table lists these documents in the order they were prepared and includes a description of each. All documents were sent to the RG.

	Date	Output	Description
1	Jan 2025	Working Paper 1: Principle and Procedure: Preliminary Proposals to Strengthen the Investment Policy	This document reviewed past investment policy reviews carried out at LSE and the implications of incorporating international law in the policy. It also reviewed the past submissions by members of LSE regarding divestment and how the governance of the investment policy can include the wider LSE community.
2	Feb 2025	Notes from Social and Governance Workshop	Report back on event proceedings and key points of discussion.
3	Mar 2025	Notes from Net Zero Workshop	Report back on event proceedings and key points of discussion.
4	Mar 2025	Notes from Armaments Workshop	Report back on event proceedings and key points of discussion.

5	Mar 2025	Correspondence with RG Member regarding international law	The CG responded to questions by an RG member regarding how to operationalise international law in the investment policy.
6	Apr 2025	Working Paper 2: Investment Policies of UK Universities: Exclusions and Fiduciary Duty	This document addressed the RG's concern with Council's fiduciary duty by reviewing the exclusions included in investment policies at other UK Universities.
7	May 2025	Working Paper 3: Report on ESG Policy Review Submissions	This document thematised the online submissions received in the ESG review process.
8	May 2025	Notes from Roundtable on ESG Policy	Report back on event proceedings and key points of discussion.
9	Jun 2025	Draft Policy: LSE Ethical and Sustainable Investment Policy (ESIP)	The CG drafted this policy document as a baseline for development of LSE's investment policy in light of the applicable legal framework and the entire consultative process, including the RG's final report.

IV. Critical and Unresolved Issues

Reflecting on this process, we list below what we believe to be critical and unresolved issues that will need to be addressed.

A. Does LSE even Consider non-Financial Factors in its Investment Policy?

Gradually it became clear from the CG's engagement with the RG that, in practice, the only goal of LSE's investment policy is to pursue a growth target. ESG factors are merely taken into account as indicia of ordinary financial risk. According to the School's investment adviser, existing exclusions of controversial weapons, thermal coal, and tobacco were based on the financial risks posed by those assets or the constraints placed on LSE by UK law, not on any independent ESG grounds. If this is correct, LSE has never had a true ESG policy; i.e., one which would limit the School's pursuit of its growth target by foregoing investment return from certain sectors on ESG grounds. There is a clear reputational risk of greenwashing.

The CG, along with many of the online submissions and feedback from the public workshops, has advocated that the LSE Ethics Code be integrated into the Investment Policy, given its commitment to avoid complicity with human rights abuses. Further, the CG has advised that the LSE be explicit about its values or best interests in the policy, as an institution of higher education with a corresponding object. It is only by being precise on this issue that a meaningful investment policy can be formulated. The RG has avoided having this discussion in any detail. We have aimed to address this by drafting our own policy, included in the appendices.

B. How does LSE Interpret 'Political' under charities law?

In multiple communications by the RG, as well as Council and President and Vice Chancellor Kramer, the LSE has taken a position that any decisions to divest would be viewed as "political" and therefore illegal under UK charities law.

This has been disputed by various constituencies within LSE as well as the CG. We will not repeat these here. Particularly, we have provided Working Paper 2: Investment Policies of UK Universities: Exclusions and Fiduciary Duty to dispel this thinking. If other universities have exclusions, and indeed are not in contravention of UK Charities Law, then why would LSE be?

In our view, the real legal issue is whether the School's decision to divest from a given sector or company would be *inappropriately* based purely on grounds where diverse members of the LSE community may legitimately hold different moral or political views; or *appropriately* reflect the best interests of the School, taking into account its international reputation and its institutional commitments to ethics and sustainability. It is on this basis that we drafted an investment policy, included in the appendices.

The RG has yet to provide any clear understanding of how they interpret "political" from a legal perspective and according to LSE's object. Instead, this legal concern is brought up whenever there is a discussion about exclusions and is used to end the conversation.

The recent announcement of a new investment policy at King's College London, as well as our conversations with other colleagues at other universities, leaves us unconvinced of the RG's position on this issue.

C. How does LSE Value and Validate the Perspectives of Different LSE Stakeholders?

The ESG Review Process was designed as a consultation, to gather the perspectives of various social groups related to LSE. We are concerned there was never a clear understanding of whose perspectives matters, in what number, and how such perspectives could be validated. The RG has indicated that this has implications in relation to UK charities law, however there has been no concrete proposal in how the LSE could elicit a wide enough range of views that they feel would validate certain perspectives. This lack of precision, and changing goalposts, has undermined the consultative process. We explain this further below.

In the present review, the preponderance of submissions by staff and students—both in writing and at workshops—recommended that LSE take a step towards adopting a real ESG policy by, for example, excluding arms companies from its indirect holdings. The Consultative Group supported this recommendation, among others, in its reports to and meetings with the Review Group. This builds on petitions, motions and referendum by various LSE constituencies (students, staff, UCU and SU) in 2024 that called for divestment from arms, fossil fuels, and companies engaged in human rights violations.

A question that has come up multiple times in this process is: what is the value of eliciting all of these opinions, if the investment policy cannot be determined by democracy and is only concerned with maximising returns? This was never answered. The CG remains unsure how the RG is weighing the perspectives of LSE groups, given almost all of the public petitions and private submissions have been rejected.

The CG's perspective is that multiple LSE stakeholders have indicated what they believe is LSE's interest and accordingly how inaction will affect the reputation of the institution, which is the responsibility of Council members. The ESG Review Process has also introduced the RG and CG to other resources and best practices at other universities.
If the RG believed that it needed more guidance from Council as to what would constitute adequate evidence of the School's best interests or reputational risk under UK charity law, based on losing or gaining stakeholder support, then the RG should have sought that guidance at the earliest opportunity.

Instead, the RG concludes that too few people attended the public events and used the online submission form. It is on this basis that they do not accept that these perspectives represent an adequate range of community views. But LSE members were never informed that their absence from these events would decisively undermine the impact of the consultative process. (Nor was the CG, which would have conveyed this risk to staff and students.) In any event, there were several access issues: some workshops were scheduled during inopportune times (Reading Week, Eid, and the beginning of exams); all workshops were in-person with no hybrid options; and there was a lack of communications regarding all events, especially the last one.

The CG itself was comprised to provide a breadth of views, through stratified random sampling no less. Given that the efforts of the CG, along with those who formally participated in consultation, were so readily dismissed may dissuade LSE members from engaging in future consultations with good faith. Indeed, our own discussions with colleagues revealed that many had doubted whether it was worth their time to attend the events, based on their suspicion that consultative processes typically do not change policy.

Relatedly, the CG is aware that this consultation has not covered views of other LSE stakeholders, namely donors and future students. The CG has had no conversations with donors to make any conclusions on this issue. As far as we know, there is no current evidence that donors will cease to donate because of exclusions in the investment policy.

Regarding future students, the RG has made it clear that they believe the Council's overriding responsibility is to ensure the funding of future education and research without financial limits. Certainly, these are weighty interests, to be balanced in developing a proportionate investment policy in the School's best interests. We have attempted to do so in drafting an Ethical and Sustainable Investment Policy. In our view, the exclusions contained in the draft Policy, including divestment from fossil fuels and net zero alignment of the School's investment policy, reflect a comprehensive balancing of the School's interests regarding future students. The proposed exclusions regarding armaments and human rights violations, moreover, would prevent LSE from deriving income from business activities that are daily threatening the basic education of potential LSE students, given schools and universities have been targeted in Ukraine and Palestine. Who counts as a future student?

D. Has Resourcing Matched the Engagement Required?

The ESG Policy Review comprised several groups and goals, as outlined in Section II of this document. We believe the design of this process was led by Council, the School Management Committee, and the RG (or a combination thereof). It is commendable that LSE decided to engage in this process and we imagine its design was partly experimental.

However, given our exposure to how this process was undertaken at other UK institutions of higher education, we believe more could have been done to facilitate the administration of this process towards a meaningful outcome based on clear deliverables. Given that LSE has undergone a review of its ESG policy on several occasions (as detailed in Working Paper 1) and has yet to produce an investment policy that at all even resembles the structure of comparable UK-based institutions suggests there is a lack of institutional commitment to this issue, particularly around its resourcing.

All members of the RG and CG (and, of course, independent members of Council) have undertaken their respective roles in a voluntary capacity. Coordinating both groups and the various consultation mechanisms was a massive task requiring the support from many staff. Still, we believe not enough resources were allocated to support this work. We note several indicative examples below.

During the Review Process, we believe we should have met with the RG on more than four occasions and further, that we should have been given more to comment on. The only substantive document was delivered to us on 6 June 2025, and by then we could not even comment on it directly, only provide a minority report. We understand members of the RG have many other commitments, as do we, but we feel that this was a missed opportunity to bring the two groups together and fully discuss the issues at hand. Instead, much of our meetings (totalling approximately 3.5 hours) were spent with the RG outright dismissing the CG's proposals without offering any counter proposals or actioning items.

One example concerned an idea that was brought up early on in this process, regarding running financial simulations on the portfolio with various exclusionary criteria. The CG had requested to discuss this directly with the asset managers. This was rejected by the RG but the idea of running simulations was supported. As far as we know, no such simulations have been requested to the asset managers. At other universities, such tasks were taken up with speed by management and provided data that could be used in real time for discussions.

Related to this, is a general lack of "out-of-the-box" engagement from the RG that would move beyond traditional and positivist assertions that view causality as a simple movement from point A to point B. This was clear in the continued assertion that engagement is a more impactful activity than divestment (without acknowledging that LSE is an indirect investor with a small number of shares and limited capacity to engage). Further, the RG has repeated the idea that divestment has no desirable effects, and is erroneously considered impactful, by relying on research that tracks stock prices, again without acknowledging the goals of divestment are about aligning investment policies with institutional ethics and shifting the public discourse of a company and/or business activity.

Finally, the RG bizarrely uses the Iraq War as an exemplar for why international law cannot be used as a reference point for the investment policy. For the RG, the differing legal opinions leading up to the War, particularly by legal scholars in the Global North, is evidence of the lack of tangibility of international law. Significantly, the RG has failed to distinguish legal opinions offered by scholars versus those issued by international judicial bodies, such as the International Court of Justice or the International Criminal Court. Regardless, for the CG, the Iraq War is the clearest example of why LSE should not invest in arms manufacturing and not be involved in war-making activities more generally. We are reminded that the Iraq War (2003-11) lacked legal basis as found by the 2016 Chilcot report and resulted in at least 100,000 civilian deaths (a conservative estimate), millions displaced, and the destruction of state and social institutions, which are still being rebuilt today. There appears to be no recognition by the RG that LSE's community is a global one, requiring Council to consider views beyond those exclusively espoused by Global North institutions and scholars.

V. Conclusions

We conclude this report by reflecting on the changing landscape of investment activity and how this relates to LSE.

We agree with the RG that we are witnessing a volatile market that makes investment decisions all the more significant. Under the Trump administration in the United States, ESG investments have ostracised companies punished for having EDI initiatives. The United States has failed to be a global leader in achieving climate targets and/or been hostile to the goals of net zero. Fossil fuel companies have felt no pressure to change their behaviour, announcing rollbacks on their own climate targets. Meanwhile, in the UK, the Starmer government has announced, under pressure from the Trump administration, an increase in defence spending and an economic growth strategy that centres arms manufacture. The Russian invasion of Ukraine has pushed European countries to reconsider war preparedness versus diplomacy. Relatedly, the growth of AI has complicated the supply chain involved in arms and surveillance systems; those once ESG-friendly technology companies are now questioned on account of their commitments to the climate and human rights. With many companies in the investable universe located in the US, and operating under US laws, investment decisions are looking increasingly complex.

In parallel, LSE has put forth ambitious plans to grow its endowment significantly in order to support educational activities. As we all know, the funding of the higher education sector in the UK is insecure and unstable.

It is with these concerns in mind that we believe that now is *precisely* the time to craft an investment policy capable of withstanding these political pressures and instead aligns with the ethics and values of the LSE. Looking ahead, we only see these pressures increasing and if the growth of the endowment is a key objective in the near term, then LSE has a duty to have in place a robust investment policy to govern it.

Unfortunately, the CG feels that time was lost this year to do just this. The announcement of King's College Cambridge to divest from arms, fossil fuels, and military occupations just as our work was coming to a close, only brought further into relief the inadequacy of the ESG Review Process.

We have drafted a policy that we believe provides a substantive baseline for future discussions and, through it, hope that our substantial efforts this year have not been in vain. We also remember that the ESG Review Process was instigated by the mass mobilisation on campus against LSE's complicity in the war on Palestinians in Gaza. One year on, and this situation has only deteriorated, as it is slowly being adjudicated by the courts and is subject to intense geopolitical manoeuvring. We are gravely troubled that LSE would not clearly distance itself from all armed conflicts by divesting from arms manufacture immediately. If not now, when?

VI. Appendices

Enclosed in this section are the following documents:

1. Working Paper 1: Principle and Procedure: Preliminary Proposals to Strengthen the Investment Policy
2. Notes from Social and Governance Workshop
3. Notes from Net Zero Workshop
4. Notes from Armaments Workshop
5. Correspondence with RG Member regarding international law
6. Working Paper 2: Investment Policies of UK Universities: Exclusions and Fiduciary Duty
7. Working Paper 3: Report on ESG Policy Review Submissions
8. Notes from Roundtable on ESG Policy
9. Draft Policy: LSE Ethical and Sustainable Investment Policy (ESIP)

ESG Consultative Group

Working Paper 1

January 2025

Principle and Procedure:

Preliminary Proposals to Strengthen the Investment Policy

ESG Consultative Group

The ESG Consultative Group is a group of volunteers, formed in October 2024, comprising 3 students, 3 professional services staff, and 3 academic staff.

CONTENTS

Executive Summary

1. In July 2024, the LSE Council resolved to review the School's Environmental, Social and Governance (ESG) Policy for its investment activity and decision-making. An ESG Review Group was appointed by Council, with a mandate to propose revisions by the end of Spring Term 2025. Subsequently, an ESG Consultative Group was established, composed of 9 self-nominated members of the LSE community chosen by lot (3 students, 3 academic staff, and 3 professional services staff). According to its terms of reference, the Consultative Group's purpose is to advise the Review Group from 'a whole-School perspective', based on the 'substantive and technical understanding' the members would gain through a series of training workshops and with 'input from relevant stakeholders' in the LSE community.
2. This is the first working paper (Paper) of the Consultative Group, based on its independent review of the documentary record in respect of the ESG Policy and the written appeals by students and staff in 2024 for the School to review its investments. The Paper's purposes are to convey our current understanding of how and why the School's ESG Policy was developed over the last decade; to determine whether any recent appeals of the LSE community may inform the principled development of the School's Policy; and to offer some preliminary proposals for consideration by the Review Group and the broader LSE community, which would strengthen the principle and procedure underlying the Policy. More specific proposals are bound to be developed throughout the remainder of the review process, including through community feedback in forthcoming workshops.
3. Because the name of the ESG Policy has changed over the past decade, and to avoid confusion with the non-investment sustainability activities of LSE, this Paper refers generally to the School's 'Investment Policy' when discussing the Policy's past development and present review and specifically to the 2015 Socially Responsible Investment (SRI) Policy or the 2022 ESG Policy when discussing each milestone.
4. This Paper does not question the Council's proper performance its fiduciary obligation in pursuing the endowment's average return objective at CPI inflation +4.5% p.a. over the very long term. Indeed, Council's investment advisers and fund managers have more than doubled the endowment's size over the last decade, to the benefit of the School and future generations of students.
5. The key recommendation of this Paper is for LSE to explicitly align its investment decision-making with international law, which is already implicit in the Investment Policy and would provide a principled baseline for the School to adapt the Investment Policy to future challenges. As a procedural complement to this proposal, the Paper recommends a permanent Consultative Group to advise the Council's Investment Sub-Committee, thus creating continuity and transparency in the School's engagement with the community.
6. **Section I** surveys the last two reviews of the School's Investment Policy. First, in 2015, the SRI Policy was adopted by Council on the advice of the Ethics Policy Committee, an ad hoc consultation group, and an external adviser. Notably, the Policy limited the endowment's exposure to direct or indirect investments in companies engaged in the production of tobacco, controversial weapons, and significant levels of carbon-intensive thermal coal or tar sands. The School has since achieved its targets of progressively

reducing its exposure to these harmful industries while achieving its financial targets. Second, in 2022, the ESG Policy was adopted by Council on recommendations of the SRI Working Group, established in 2021 to review the Investment Policy in light of the School's sustainability agenda. The Working Group recommended not to divest fully from fossil fuels or arms, but rather to align the endowment with the Grantham Institute's Transition Pathway Initiative. The 2022 ESG Policy thus continued an implicit trajectory of aligning the School's endowment with standards of international law, ranging from climate mitigation to controversial weapons and tobacco control. However, the Investment Policy was reframed as the ESG Policy, which has seemingly narrowed the previous emphasis on ethical or socially responsible investment; ethical complexity is now the Council's basis for rejecting recent calls for divestment from fossil fuels and arm companies. But the Working Group did not fully explore the feasibility of full divestment and its real impact on meeting the endowment's growth target. In parallel, the Ethics Policy Committee was removed from its previous oversight role; since 2022, the Investment Policy has been implemented and overseen by Council's Investment Sub-Committee. This governance structure does not promote transparency or input from the LSE community, which has recently been critical of the School's Investment Policy.

7. **Section II** addresses the immediate backdrop to the current review of the Investment Policy, namely Council's response to student activism regarding Palestine. Whereas Council emphasised the political complexity of divestment, students grounded their appeals in the involvement or complicity of certain companies in alleged violations of international law. Two subsequent letters from LSE staff also underscored the importance of international law as a common standard for socially responsible or ESG investment. To avoid future disruptions to the stable management of the endowment, this Paper proposes the explicit adoption of international law as a basic principle for the School's Investment Policy, along with a procedure that enables its implementations with transparency and community input.
8. **Section III** presents the two proposals, including a draft amendment of the Investment Policy. As a matter of principle, the School may align its Investment Policy with international law by ensuring that ***no investments are held, directly or indirectly, in companies that may reasonably be viewed as engaged or complicit in activities that violate international law***. As a matter of procedure, a ***permanent Consultative Group*** may be established to oversee the effective implementation of the Policy by the Investment Sub-Committee. Any decision to divest would still rest with the Investment Sub-Committee in exercising the Council's fiduciary obligation, where selling an investment is likely to prevent the School from reaching the endowment's return target.
9. **Section IV** sets outs five issues for further consultation that would build upon the two proposals in this Paper, including the other values, screening criteria, and increased transparency that may be required to address community concerns regarding the present implementation of the Investment Policy.
10. These preliminary proposals are intended to strengthen the Investment Policy for the future benefit of the School and to ensure that the admirable management of the endowment is not further disrupted. A prudent fiduciary in a world-class university would surely establish a framework that helps it to determine which global issues are purely of

a political character, and thus irrelevant to ESG investing, and those which are grounded in genuine concern for the international rule of law.

11. The Consultative Group welcomes feedback.

I. The Story So Far: Development of the Investment Policy, 2014–2024

12. Over the last decade, LSE has made considerable progress in developing its Investment Policy, with key milestones in 2015 and 2022. Because the current Policy is the product of these past developments,[1] we identify when and why particular aspects of the Policy were adopted by the School and ask whether there are any lessons to be gleaned from this recent history.[2] We focus on those aspects that have been debated in recent months, namely the question of whether to divest or otherwise address LSE's investments in fossil fuels and weapons.

13. After an overview of our general observations, regarding the basic principle and procedure that have driven the School's Policy (subsection A), we focus on past recommendations underlying the adoption of LSE's SRI Policy in 2015 (subsection B) and its ESG Policy in 2022 (subsection C), examining the achievements and shortcomings of our story so far.

14. For the avoidance of doubt, this Paper assumes the Council has properly discharged its fiduciary obligation within agreed risk parameters by setting the endowment's average return objective at CPI inflation +4.5% p.a. over the very long term.[3] The focus of this section, however, is to trace how the School's pursuit of that objective has also been conditioned by ESG parameters on investment decision-making. It is up to the School's fund managers to make decisions that conform with its Investment Policy; the content of the Policy itself should not be determined by whichever investment options make it easiest to achieve the growth objective. It is indeed encouraging to observe that the School has been able to upgrade its Investment Policy over time whilst greatly improving its financial position for the benefit of future students, more than doubling the endowment's size over last decade.[4]

A. Overview of Observations

15. In brief, we have identified two elements in the development of LSE's Investment Policy, relating to weaknesses of procedure and principle, which inform the two proposals of this

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[1] *Environmental, Social & Governance (ESG) Policy* (LSE, November 2022) https://info.lse.ac.uk/staff/divisions/Finance-Division/assets/documents/Financial-Accounting-and-Compliance/PDFs/LSE-ESG-Policy-FINAL.pdf (accessed 10 December 2024).

[2] Our narration of the historical development of LSE's ESG Policy is not comprehensive but rather designed to fill in some of the gaps that are left by the more concise summaries that are publicly available on the School's website and in a recent report by student activists, though such sources also provide useful details that we do not: see respectively 'Responsible Investment' (LSE, 2024) https://info.lse.ac.uk/staff/divisions/Finance-Division/Responsible-Investment (accessed 10 December 2024); LSESU Palestine Society, *Assets in Apartheid: LSE's Complicity in Genocide of the Palestinian People, Arms Trade, and Climate Breakdown* (May 2024) https://lsepalestine.github.io/documents/LSESUPALESTINE-Assets-in-Apartheid-2024-Web.pdf (accessed 10 December 2024) 31.

[3] C Butler, *Presentation to the Consultation Group: Session 1: Portfolios Values, Comparative Endowments, Investment Risk and Return Targets, Sample Asset Allocation* (12 November 2024) (on file with authors).

[4] At the end of 2014/15, the School's endowment was valued at £112.9M; at the end of 2023/24, it was valued at £255.5M: *Financial Statements for the year ended 31 July 2015* (LSE) https://info.lse.ac.uk/staff/divisions/Finance-Division/assets/annual-accounts/PDF/2014-15-FinancialStatements-FINAL-for-PUBLICATION-1.pdf (accessed 10 December 2024); *Financial Statements for the Year ending 31 July 2024* (LSE) https://info.lse.ac.uk/staff/divisions/Finance-Division/assets/annual-accounts/PDF/2023-24-Annual-Accounts.pdf (accessed 10 December 2024).

Paper. These two elements are linked by a lack of certainty as to which governance body or bodies have oversight of the Policy and according to what basic principle.

16. First, as to **procedure**, it has been repeatedly recognised that the School's investment decisions should be made transparently and with input from the LSE community, as appropriate, though this input has so far been largely *ad hoc* – as in the present review process – and without any proposal to establish a permanent consultative group, or to increase representation on the Investment Sub-Committee, which would assist in the stable implementation of the Policy by Council and its fund managers.

17. Over the past decade, several governance bodies have been asked to recommend and oversee changes to the Policy. In 2015, the School's strategy was driven by recommendations from the Ethics Policy Committee, which was deemed 'responsible after an appropriate period for reporting to Council on the degree to which the School's investments had shifted in the direction set by the strategy' – to *audit*, in a word, LSE's performance on 'socially responsible investment' – whereas the Council's Investment Sub-Committee had executive responsibility to implement that strategy.[5] In 2022, however, a SRI Working Group set up by the Investment Sub-Committee 'confirmed' – presumably on the advice of Council – that 'it was not part of the Ethics [Policy] Committee's remit to consider the new ESG strategy proposal: the correct route for consultation is through the Sustainability Leadership Group.'[6] At this stage, and in line with the changing jargon of the financial sector, the School's SRI Policy was renamed the ESG Policy, on the basis that 'socially responsible investment' was an 'outdated description'.[7]

18. However, such a governance pivot from a 'social responsibility' or 'ethical investment' framing to one of 'sustainability' or 'ESG' (without any apparent consultation with the LSE community) has seemingly narrowed the relevant considerations in setting the School's Investment Policy, at least from the perspective of the Investment Sub-Committee and its advisers. By contrast to the changes led by the Ethics Policy Committee in 2015, at which point the review was explicitly focused on 'the extent to which the financial returns achievable from such an approach counterbalanced the ethical objectives',[8] the LSE community has been repeatedly told – from 2022 onwards – that it is not part of the Investment Sub-Committee's 'remit to take political or moral stands' or to 'lobby for political change', except insofar as sanctions against Russian companies, for example, might be said to reflect a 'political bias' that has been transformed into a legal limit on

[5] In full, the Socially Responsible Investment Review Group resolved 'to re-iterate the group's understanding of the governance context for its work, namely, that Council had ultimately to take decisions on the Schools Investment Strategy, that the Investment Sub-Committee was responsible for the implementation of the strategy set by Council, and the Ethics Policy Committee would be responsible after an appropriate period for reporting to Council on the degree to which the School's investments had shifted in the direction set by the strategy': *Socially Responsible Investment Review Group*, Minutes (LSE, 9 July 2015 (on file with authors) 9.

[6] *SRI Working Group Proceedings and Recommendations* (LSE, 9 May 2022) (on file with authors) 20–21.

[7] *SRI Working Group Proceedings and Recommendations* (LSE, 9 May 2022) (on file with authors) 2. We also note that the framing of ESG, as an industry term that aligns with various metrics and financial products related to risk, is also being reconsidered by investors, researchers, and asset managers.

[8] *Socially Responsible Investment Review Group*, Minutes (LSE, 9 July 2015 (on file with authors) 3.

‘investment choices’.[9] Whereas taking an ethical stance was once the main rationale for the adoption of LSE’s Investment Policy, the supposed complexity of ‘overlapping and intersecting questions of ethics and morality’ is now the main rationale not for promoting but rather resisting calls for divestment, as discussed below.[10]

19. There is a tension here with the very purpose of LSE’s current Investment Policy, which is designed to give priority to certain environmental, social, and governance outcomes in the School’s investment decision-making, albeit within the parameters of achieving the endowment’s return objective. Indeed, the first principle of the Investment Policy is to ‘[e]nsure that the School’s investments are consistent with the values of the LSE and that the School’s managers conform to the School’s ESG principles.’[11] But what are LSE’s ‘values’? Who decides its ESG ‘principles’? These questions connect the procedural uncertainties, taking us to our substantive point: what really is the basic principle underlying our Investment Policy?

20. As to **principle**, we observe that one of the main drivers for the development of the Investment Policy, at least implicitly, has been to ask whether certain investments could reasonably be viewed as contrary to international law, such as controversial weapons that are banned by multilateral treaties, sanctioned Russian companies after the invasion of Ukraine, or fossil fuel assets and activities that are inconsistent with the net zero pathways required by the temperature limits of Paris Agreement.[12] Even if not explicitly acknowledged, we can see that international law has provided a relatively objective benchmark for the development of the 2015 SRI Policy and 2022 ESG Policy, amid a range of perspectives on how best to manage the endowment. At the current juncture, we suggest, the global consensus reflected in rules of international law is an appropriate focus in establishing a baseline among different stakeholders in the LSE community. This point is further explored in Section II.

21. We now turn to a closer analysis of the key moments in the development of the Investment Policy, outlined in general terms above.

B. 2015 SRI Policy

22. In 2014, the Ethics Policy Committee was asked to advise Council on its compliance the SRI Policy, as it was then known, with a focus on the ethics of investing in fossil fuels and tobacco products. In its final report, dated January 2015, the Ethics Policy Committee underlined several options for ethical investment – including negative screening

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9 *SRI Working Group Proceedings and Recommendations* (LSE, 9 May 2022) (on file with authors) 2, 20.

10 Memorandum of Council, *LSE Council Response to Calls for Divestment* (9 July 2024) https://londonschoolofeconomicscommunications.newsweaver.com/icfiles/2/76729/311961/1336467/5d113e6fe91da1654e0600aa/lse_council_response_to_calls_for_divestment_july24.pdf (accessed 10 December 2024).

11 *Environmental, Social & Governance (ESG) Policy* (LSE, November 2022) https://info.lse.ac.uk/staff/divisions/Finance-Division/assets/documents/Financial-Accounting-and-Compliance/PDFs/LSE-ESG-Policy-FINAL.pdf (accessed 10 December 2024) para. 1(a).

12 It is presently a live question before the ICJ whether the production or burning of fossil fuels and related regulation or subsidies, causing significant harm to the climate system, may constitute violations of the Paris Agreement and/or other sources of international law that engage the responsibility of States: ‘Summary of the International Court of Justice Hearings on States’ Obligations in Respect of Climate Change: 2-13 December 2024’ (*Earth Negotiations Bulletin*, 16 December 2024) https://enb.iisd.org/sites/default/files/2024-12/icj10e.pdf (accessed 16 December 2024).

(divestment), positive screening, and shareholder activism – but recommended that the Council should commission 'an independent review from an external individual or organisation with specialist knowledge of ethical investment to provide succinct and targeted guidance to the School', taking into account 'School-wide views on socially responsible and ethical approaches to investment'.[13]

23. We understand that such a review was conducted by consulting firm Mercer, though a copy of the 2015 report has not been located by the School as part of the current review process.[14] According to a 2024 presentation, however, Council adopted three tenets in 2015 for its investment strategy, based on that Mercer report:[15]

    i. Respect of the endowment's purpose as a resource to support the education of present and future students and university research programmes, not as an instrument to lobby for political change.

    ii. Recognition of the legal constraints imposed by those fiduciary duties on trustees in the management of charitable funds.

    iii. A determination to motivate a change in corporate behaviour through positive manager engagement.

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[13] The full recommendation can be found at Ethics Policy Committee, *Ethical Investment: Report to Council* (LSE, January 2015) (on file with authors) para 4.1 ('The Committee invites Council to consider commissioning an independent review from an external individual or organisation with specialist knowledge of ethical investment to provide succinct and targeted guidance to the School on the current SRI policy, the application of it, relevant developments in the investment markets (such as the recent launch by Mercer of ESG ratings of passive as well as actively managed equity funds), and the options available to the School. School-wide views on socially responsible and ethical approaches to investment should be considered as part of this review, including but not limited to EPC, Finance Committee, the Investments Sub-Committee, Academic Board, Students and the Students' Union. The review itself would encompass, but not necessarily be restricted to, providing an assessment of the current SRI policy in the light of: The School's mission, values, strategic priorities and the provisions of the Memorandum and Articles; Full consideration of all ethical concerns relating to investments; An assessment of the various approaches to ethical investments such as negative and positive screening, preference or best-of-sector and shareholder activism; Legal considerations around the School's charitable status including reference to the recommendations of the recent Law Commission report on Social Investment by Charities (Sept. 2014); Other UK, and overseas, universities' policies and practices around ethical investment; Current investments; Potential future investments with an assessment of the risks and opportunities attached to each; What options are available to modify and monitor the School's investment strategy to minimise the reputational and other consequences of making investments perceived as unethical; The relatively small size of the School's endowment and consideration of the extent to which any policy may limit the opportunity to maximise returns for the wider benefit of the School's mission and objectives and/or increase risk in the School's portfolio; Scenarios to illustrate the financial impacts of divestment options; Evaluation/analysis of other impacts of any potential decisions about ethical investment.').

[14] Specifically, in July 2015, it was 'RESOLVED: (a) that Mercers be asked to advise the group on the passive investment products and options that were available to the School to enable it to move towards implementing the three exclusions the Chair had proposed (arms, tobacco and coal and tar sands); (b) that Mercers be asked to advise whether in practical terms the LSE would be able to implement exclusions using passive investment products or whether it might need to consider an expanded role for actively managed strategies, and if it did, what the implications of these might be; (c) that Mercers be asked to advise whether there were any investment options the School might consider to include a more positive investment focus such as sustainable energy and water, rather than concentrating on exclusions; (d) that Mercers provide the group with a paper addressing these points supplemented by a presentation to the next meeting to draw out the key points for discussion. To this end, Mercers would require information on the holdings in the School's investment mandates with the exceptions of property and cash': *Socially Responsible Investment Review Group*, Minutes (LSE, 9 July 2015 (on file with authors) 8.

[15] C Butler, *Presentation to the Consultation Group: Session 3: SRI and ESG Strategies, Implementation Progress 2015 to 2024* (20 November 2024) (on file with authors).

24. As the main step towards realising the third tenet, the School became a member of the UN Principles for Responsible Investment and set similar criteria for its fund managers.[16] Specifically, the School's updated SRI Policy provided that there should be no direct and, as far as possible, no indirect investments in companies engaged in the production of tobacco or controversial weapons and those significantly in production of carbon-intensive thermal coal or tar sands, together referred to as TWTT, while not reducing expected long-term performance of the endowment.[17]

25. Although the basic principle underlying these updates was not explained, we observe that the Policy was largely aligned with developments in international law, ranging from climate mitigation to disarmament and tobacco control. Coal and tar sands have long been the low-hanging fruit of the divestment movement, even before the 2015 Paris Agreement, given they are 'the most carbon intensive- and environmentally hazardous fossil fuels, and their continued large-scale use is incompatible with economically mitigating climate change.'[18] Controversial weapons in the SRI Policy included land mines and cluster bombs, which are notably prohibited under international law by the Anti-Personnel Mine Ban Convention and the Convention on Cluster Munitions,[19] but not arms in general. LSE's stance on tobacco is similarly consistent with international law, which requires 183 States, including the UK, to adopt 'appropriate policies for preventing and reducing tobacco consumption, nicotine addiction and exposure to tobacco smoke' and 'to protect these policies from commercial and other vested interests of the tobacco industry in accordance with national law',[20] which has informed the divestment of sovereign wealth funds and pension funds from the tobacco business.[21]

26. Since 2015, LSE's significance tests have been tightened so that TWTT exposure had dropped by 80% by 2022 when the SRI Policy was reviewed (see next section) and all the filters were met. As of 2024, the current TWTT exposure filters are as follows:[22]

    i. Aggregated portfolios should remain under 3% (reduced from the original 5%).

    ii. Individual funds should remain below 6% (reduced from the original 10%).

    iii. The list of thermal coal and tar sands companies are defined as those with revenues from those sectors above 3% (reduced from the original 10%).

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[16] UN Principles for Responsible Investment, 'What are the Principles for Responsible Investment?' www.unpri.org/about-us/what-are-the-principles-for-responsible-investment (accessed 10 December 2024).

[17] C Butler, *Presentation to the Consultation Group: Session 3: SRI and ESG Strategies, Implementation Progress 2015 to 2024* (20 November 2024) (on file with authors).

[18] MIT Climate Change Conversation Committee, *MIT and the Climate Challenge* (June 2015) https://web.mit.edu/vpr/climate/MIT_Climate_Change_Conversation_Report_2015.pdf (accessed 10 December 2024) 20.

[19] Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction (adopted 18 September 1997, in force 1 March 1999) 2056 UN Treaty Series 211; Convention on Cluster Munitions (adopted 30 May 2008, in force 1 August 2010) 2688 UN Treaty Series 39.

[20] World Health Organization Framework Convention on Tobacco Control (adopted 21 May 2003, in force 27 February 2005) 2302 UN Treaty Series 166, art 5.

[21] M Assunta, *Good Country Practices in the Implementation of WHO FCTC Article 5.3 and its Guidelines* (WHO FCTC Secretariat, 15 January 2018) 14.

[22] C Butler, *Presentation to the Consultation Group: Session 3: SRI and ESG Strategies, Implementation Progress 2015 to 2024* (20 November 2024) (on file with authors).

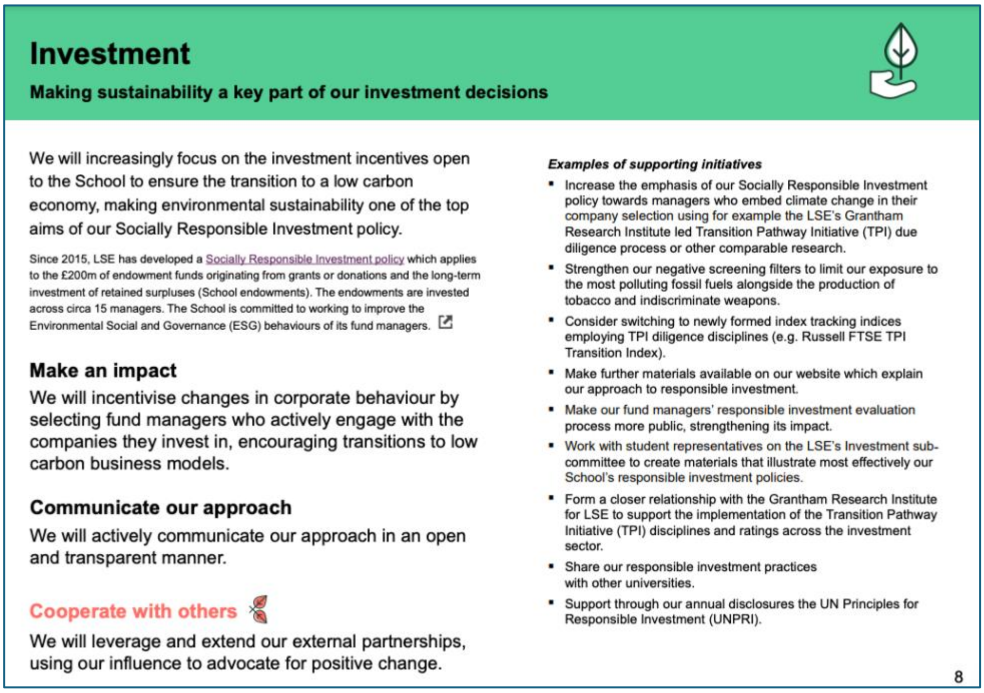
27. Alongside the Council's review of the SRI Policy, the Ethic Policy Committee itself issued the following guidance on the School's Ethics Code (which remains in effect):[23]

> In its dealings with states, organisations, and individuals, the School should not enter into any relationship that compromises, or could reasonably be perceived to compromise, its values, or that makes it complicit in illegal activity or the suppression of human rights. This standard should be applied transparently, with wide and appropriate consultation throughout the LSE community, and drawing on internal and external independent expertise.

28. However, as discussed above, the subsequent review of LSE's Investment Policy was conducted without oversight from the Ethical Policy Committee, being reframed around 'sustainability' rather than 'ethics' or 'socially responsible investment'.

C. 2022 ESG Policy

29. In 2019, as part of an international effort to mitigate climate change in line with the temperature limits of the Paris Agreement,[24] the LSE announced a new goal of net zero by 2030 for all Scope 3 emissions (from indirect sources, which includes its investment portfolio), building on the School's existing goal of net zero by 2030 for its Scope 1 and 2 emissions (respectively, from direct sources and from purchased energy).[25] Accordingly, in 2020, the School published its *Sustainability Strategic Plan*, which identified investment as one of six key areas of focus for LSE to 'maximise its impact in shaping a sustainable world', including the priorities listed in the following figure:[26]


Investment

Making sustainability a key part of our investment decisions

We will increasingly focus on the investment incentives open to the School to ensure the transition to a low carbon economy, making environmental sustainability one of the top aims of our Socially Responsible Investment policy.

Since 2015, LSE has developed a Socially Responsible Investment policy which applies to the £200m of endowment funds originating from grants or donations and the long-term investment of retained surpluses (School endowments). The endowments are invested across circa 15 managers. The School is committed to working to improve the Environmental Social and Governance (ESG) behaviours of its fund managers.

Make an impact

We will incentivise changes in corporate behaviour by selecting fund managers who actively engage with the companies they invest in, encouraging transitions to low carbon business models.

Communicate our approach

We will actively communicate our approach in an open and transparent manner.

Cooperate with others

We will leverage and extend our external partnerships, using our influence to advocate for positive change.

Examples of supporting initiatives

- Increase the emphasis of our Socially Responsible Investment policy towards managers who embed climate change in their company selection using for example the LSE's Grantham Research Institute led Transition Pathway Initiative (TPI) due diligence process or other comparable research.
- Strengthen our negative screening filters to limit our exposure to the most polluting fossil fuels alongside the production of tobacco and indiscriminate weapons.
- Consider switching to newly formed index tracking indices employing TPI diligence disciplines (e.g. Russell FTSE TPI Transition Index).
- Make further materials available on our website which explain our approach to responsible investment.
- Make our fund managers' responsible investment evaluation process more public, strengthening its impact.
- Work with student representatives on the LSE's Investment sub-committee to create materials that illustrate most effectively our School's responsible investment policies.
- Form a closer relationship with the Grantham Research Institute for LSE to support the implementation of the Transition Pathway Initiative (TPI) disciplines and ratings across the investment sector.
- Share our responsible investment practices with other universities.
- Support through our annual disclosures the UN Principles for Responsible Investment (UNPRI).

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[23] *Ethical Guidance: A Companion to the Ethics Code (April 2014)* (LSE, March 2015) https://info.lse.ac.uk/staff/divisions/Secretarys-Division/Assets/Documents/Ethics/EthicsCodeGuidance2014.pdf (accessed 10 December 2024) para 2.5.4.

[24] Paris Agreement (adopted 12 December 2015, in force 4 November 2016) UN Treaty Series 3156 art 2.1(a).

[25] 'LSE to go emission-free' (LSE, 27 September 2019) https://www.lse.ac.uk/News/Latest-news-from-LSE/2019/i-September-2019/LSE-to-go-emission-free (accessed 10 December 2024).

[26] *#SustainableLSE: Our Sustainability Strategic Plan* (LSE, October 2020) https://www.lse.ac.uk/2030/sustainability-strategic-plan/assets/strategic-plan/sustainability-strategic-plan-v5.5.pdf (accessed 10 December 2024).

30. The School's rising sustainability agenda was the proximate cause of Council's creation of an SRI Working Group in 2021 – comprising Caroline Butler, Christine Downton, Ed Hall and Christopher Polk – with a mandate: to review the School's SRI Policy and propose revisions to the Investment Sub-Committee for consideration; to undertake appropriate consultation with relevant stakeholders; and to report by end 2021/22 academic year.

31. On 9 May 2022, the SRI Working Group delivered the following 12 recommendations (which have been simplified for brevity):[27]

    i. To update the name from the SRI to the ESG Policy.

    ii. To nevertheless build on the existing SRI Policy.

    iii. Not to divest from fossil fuels, but rather pursue 'a policy which assists in creating a change in corporate behaviours pushing high emitting companies to align with Paris Climate Targets or other similar international pledges' and to 'set a future target of full elimination of non-aligned fossil fuel companies on direct portfolios' and, '[o]n indirect investments, we propose a target at fund level of 5% and 3% at the overall portfolio level for the worst polluting of fossil fuel companies [i.e. thermal coal, tar sands, and upstream oil and gas].' The SRI Working Group also noted that investments in passive indices would be moved to ESG indices that most closely matched the School's policy. The SRI Working Group expected this strategy towards fossil fuels to be implemented over the next five years (i.e., by July 2027), with the assistance of the Transition Pathway Initiative (TPI) team at LSE's Grantham Institute and the School's investment advisers.

    iv. To maintain the exclusion of investments in tobacco and controversial ('indiscriminate') weapons, based on significant exposure (see para. 26 above).[28]

    v. To maintain ESG pressure on fund managers 'to support changes in corporate behaviour not only to reduce emissions and encourage the publication of carbon emissions data in accordance with future international accounting standards, but also to increase diversity, strengthen human rights and create positive impacts on supply chains, promote greater transparency in reporting etc.'

    vi. To develop investment opportunities, most likely in private equity or real estate, which 'generate returns from positive ESG impacts such as technologies which will support clean energy, more climate efficient infrastructure projects or sustainable property, etc.'

    vii. By July 2027, to have set a target and timeline of net zero by 2030 for the entire investment portfolio, coinciding with a review of the fossil fuel strategy (see point iii. above).

[27] *SRI Working Group Proceedings and Recommendations* (LSE, 9 May 2022) (on file with authors) 2–6.

[28] We note that in practice these exclusions are not binary given the majority of LSE's investments are in mutual funds. i.e. these exclusions seem to be tied to two variables: 1. The percentage of company revenues from these activities and 2. The percentage of investments in that company within a particular fund. We note that the *Assets in Apartheid* report identified investments in British American Tobacco through the BlackRock Charities UK Equity Index Fund, in which LSE had investments in 2023.

viii. To review annually any 'student ESG initiatives which might enhance the School's ESG strategy and further the School's ESG goals while remaining within the fiduciary targets required of the [Investment Sub-Committee] in its implementation of the School's risk and return parameters.'

ix. To restructure the School's website to bring together all issues relevant to the endowment's ESG policy, with a view to making several positive developments more accessible to stakeholders, donors, and fundraisers.

x. To consider joining the Institutional Investors Group on Climate Change (IIGCC) and to let the School's membership lapse for the UN Principles for Responsible Investment.

xi. To use funds to support an annual ESG competition for staff and student research on investment and ESG issues.

xii. To budget appropriately for administrative and other costs associated with the previous recommendations.

32. Here is not the place to review every conclusion underlying these 12 recommendations. For present purposes, it suffices to focus on one of the main issues considered in the SRI Working Group's 2022 report, and of abiding interest to the LSE community; namely, whether or not to divest fully from fossil fuel assets and/or weapons, beyond the progressive reduction of significant exposure to TWTT investments under the 2015 SRI Policy.

33. Although we challenge below several of the SRI Working Group's conclusions, it must be noted that there was little engagement from the LSE community at that time, by contrast to other universities, an engagement which might otherwise have shed light on – and helped to fill – the gaps we have now identified.[29] This speaks to the importance of establishing a decision-making procedure that promotes the sustained engagement of the LSE community in the effective implementation of the School's Investment Policy.

34. As to **fossil fuels**, the SRI Working Group's key conclusions – relying on analysis conducted by adviser Stanhope Capital – were the following (each of which is examined further at para. 35 below):[30]

i. Divestment would be largely symbolic ('an ineffective strategy, individually seductive but globally weak', giving merely a 'warm glow of sustainability'), rather than leading to real emissions reductions.

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[29] The SRI Working Group ran four consultative workshops, which were attended by less than 10 students, albeit 'dedicated members' of the LSE community: *SRI Working Group Proceedings and Recommendations* (LSE, 9 May 2022) (on file with authors) 20. In 2022, there was seemingly a continuity problem in student organising; the Climate Emergency Collective disbanded at the end of the 2020/21 year after many of its members graduated, then the issues were picked up by the Divestment Alliance, led by the Sustainable Futures Society, but 'LSE's student campaigns over the years have never quite reached the same heights' as the high-profile campaigns in other UK universities: V Huang, '"It's all greenwashing": Students on sustainability at LSE' (*The Beaver*, 17 February 2022) https://thebeaverlse.co.uk/its-all-greenwashing-students-on-sustainability-at-lse (accessed 10 December 2024).

[30] *SRI Working Group Proceedings and Recommendations* (LSE, 9 May 2022) (on file with authors) 7–12.

ii. Any commercial case regarding the risk of stranded assets depends on the future implementation of radical climate mitigation measures, whereas (quoting Stanhope) 'the negative impact, in pure investment terms, of hosting fossil fuel companies is less clear cut', especially given that the oil and gas sector has 'traditionally provided a good hedge against inflation' and that 'recent underinvestment means that new energy supply is growing slower than demand and will lead to higher fossil fuel prices'.

iii. Excluding the entire oil and gas sector, according to Stanhope, would require the School to sell 'all six of the passive vehicles and eleven of the sixteen active funds, in total 66%' of the Growth Portfolio, thus creating an 'increased risk of failing to meet the School's return targets' given 'how pervasive the sector will remain until alternative energy sources replace fossil fuels.'

iv. The School should instead 'pursue a policy which materially assists in creating a change in corporate behaviour and an impetus for corporate policies which will bring those companies aligned with Paris Climate Targets i.e. keeping temperature below a 2 degree centigrade increase.'

35. Respectfully, these four conclusions were incomplete:

i. Although the SRI Working Group 'reviewed a number of academic and investment expert papers' and 'compared the different approaches by other leading universities',[31] it did not take full advantage of the considerable work done by the financial advisers to other universities. To pick one, the University of Cambridge, in reviewing the available literature on 'The Impact of Divestment on the Fossil Fuel Sector', notably concluded:[32]

> Although divestment does not appear to have much of a direct financial effect on companies via public equity holdings [...] it may already have had an effect on the cost of capital of fossil fuel companies on the debt side, and could affect companies' ability to roll over debt or issue new debt in the first place. This may increasingly be the case as the divestment movement turns its attention to the banking sector, the source of a majority of new finance for fossil fuels. A divestment mandate – and, on the positive side, an emphasis on green investments – may have a yet greater effect on investments in smaller companies and in early-stage ventures [...]. Finally, divestment may be having a broader influence on the priorities of other investors.

[31] *SRI Working Group Proceedings and Recommendations* (LSE, 9 May 2022) (on file with authors) 7.

[32] E Quigley, E Bugden and A Odgers, *Divestment: Advantages and Disadvantages for the University of Cambridge* (20 September 2021) https://www.cam.ac.uk/sites/default/files/sm6_divestment_report.pdf (accessed 10 December 2024) 96–97 (footnotes omitted). See also S Braungardt, J van den Bergh and T Dunlop, 'Fossil Fuel Divestment and Climate Change: Reviewing Contested Arguments' (2019) 50 Energy Research & Social Science 191. For empirical support of divestment strategies, see e.g. M Rohleder, M Wilkens and J Zink, 'The Effects of Mutual Fund Decarbonization on Stock Price and Carbon Emissions' (2022) 134 Journal of Banking and Finance 106532.

ii. The commercial risk of stranded assets does not arise only from climate mitigation measures – as assumed by the SRI Working Group – but also from low-carbon technology diffusion and increased energy efficiency.[33] Such risk falls overwhelmingly on private investors in OECD countries, including substantial exposure through institutional funds and financial markets.[34] We note that, since those studies, Russia's invasion of Ukraine triggered a profit and price explosion in the fossil fuel industry, which mostly flowed to shareholders in oil majors.[35] In a sense, Stanhope's advice to the SRI Working Group was prescient: fossil fuel prices did surge and probably generated income for the School. But that speaks to a more fundamental problem in the SRI Working Group's reliance on Stanhope. If we are to take seriously LSE's commitment to any sort of net zero commitment, let alone a broader policy based on socially responsible investment: was it appropriate for the School to have bet against the rapid energy transition required to meet the temperature limits of the Paris Agreement,[36] and indeed to have reaped financial returns that were only made possible by price hikes in the wake of 'the aggression of war-mongering dictators'?[37] Although the S in ESG is frequently overlooked – requiring investors to consider the social impacts of the companies or sectors in which they invest – it is notable that the benefits of record oil and gas profits in 2022 have flowed overwhelmingly to a fraction of institutions and individuals, thus reinforcing existing wealth, racial, and ethnic inequalities.[38] In sum, continued investment in fossil fuel companies presents a commercial risk of stranded assets if the energy transition is accelerated in line with the Paris Agreement, whereas the alternative scenario – continued profitability of oil and gas companies – implies a range of environmental and social harms, including benefitting from war, that are difficult to reconcile with the very point of ESG investment. Both scenarios weigh in favour of divestment.

iii. It is somewhat misleading for Stanhope to have highlighted that a commitment to fossil fuel divestment would require the School to sell 66% of its Growth Portfolio,[39] insofar as lay readers might infer that LSE would be forced to abandon

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[33] J-F Mercure and others, 'Macroeconomic Impact of Stranded Fossil Fuel Assets' (2018) 8 Nature Climate Change 588. Regulatory risk, however, has been foremost in climate risk *perceptions* by institutional investors: P Krueger, Z Sautner and LT Starks, 'The Importance of Climate Risks for Institutional Investors' (2020) 33 Review of Financial Studies 1067.

[34] G Semieniuk and others, 'Stranded Fossil-Fuel assets Translate to Major Losses for Investors in Advanced Economies' (2022) 12 Nature Climate Change 532.

[35] I Weber, 'Big Oil's Profits and Inflation: Winners and Losers' (2022) 65 Challenge 151.

[36] Shortly after the SRI Working Group delivered its recommendations in May 2021, the International Energy Agency announced the key finding of its latest economic modelling, which was widely reported in the business press: to reduce emissions from the energy sector to net zero by 2050 – and thus to limit global average temperatures to 1.5°C – there must be no new development of oil, gas, or coal projects. See S Bouckaert and others, *Net Zero by 2050: A Roadmap for the Global Energy Sector* (International Energy Agency, 17 May 2021) accessed 10 December 2024.

[37] These are the SRI Working Group's own words: *SRI Working Group Proceedings and Recommendations* (LSE, 9 May 2022) (on file with authors) 12.

[38] G Semieniuk and others, 'Distributional Implications and Share Ownership of Record Oil and Gas Profits' (Political Economy Research Institute, Working Paper Series, Number 611, November 2024).

[39] 'The Growth Portfolio is intended to compound growth over the very long term and is invested in the highest risk and return asset classes whose volatility would make fixed distributions potentially costly and thus is structured

two-thirds of its income stream from active and passive funds. In fact, according to Stanhope, the Weighted Total Exposure to oil and gas companies across the entire Growth Portfolio was merely 1.1%.[40] To divest from fossil fuels, therefore, would have required the School to switch its investments to funds that, in substance, were 98.9% identical to its previous holdings. Hence, the decisive question should have been whether the costs of switching the 6 passive and 11 active funds to fossil-free funds, both in terms of administration and any reduction in future income, would truly have 'increased [the] risk of failing to meet the School's return targets'.[41] The fact that so many institutions have divested from fossil fuels – now including 115 out of 149 UK universities[42] – suggests that the administrative costs were negligible, though the long-term character of LSE's Growth Portfolio may have presented difficulties.[43] In the decade preceding its 2022 recommendations, however, fossil-free portfolios had outperformed the market on a risk-adjusted basis.[44] The subsequent surge in fossil fuel profits, as discussed above, has presented its own challenges for LSE's commitment to avoid environmentally and socially harmful investments.

iv. As to the SRI Working Group's recommendation that LSE should 'pursue a policy which materially assists in creating a change in corporate behaviour' in line with the Paris Agreement, there was no indication that this policy would involve any kind of shareholder engagement, let alone activism, in respect of oil and gas companies.[45] Indeed, the School's engagement opportunities are significantly limited by the fact that it seldom holds equities directly.[46] Thus, its chief form of

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so that funds never need to be sold at a market timing which would be adverse. The portfolio aims to be invested in long term growth assets: long term asset allocation targets are 67.5% in listed equities, 25% in private equity (including private credit) and 7.5% in property. Distributions are rare.': C Butler, *Presentation to the Consultation Group: Session 1: Portfolios Values, Comparative Endowments, Investment Risk and Return Targets, Sample Asset Allocation* (12 November 2024) (on file with authors).

40 *SRI Working Group Proceedings and Recommendations* (LSE, 9 May 2022) (on file with authors) 10.

41 *SRI Working Group Proceedings and Recommendations* (LSE, 9 May 2022) (on file with authors) 9.

42 M Taylor, 'More than three-quarters of UK universities join fossil fuel pledge, say activists' (*The Guardian*, 2 December 2024) www.theguardian.com/education/2024/dec/02/more-than-three-quarters-of-uk-universities-join-fossil-fuel-pledge-say-activists (accessed 10 December 2024).

43 Although the SRI Working Group suggested that divestment would have a 'direct negative impact on returns', its report made no attempt to quantify the administrative or other costs, except to say that 'ESG type passive funds which have higher costs and may be more volatile will also adversely impact returns': *SRI Working Group Proceedings and Recommendations* (LSE, 9 May 2022) (on file with authors) 3, 6.

44 E Quigley, E Bugden and A Odgers, *Divestment: Advantages and Disadvantages for the University of Cambridge* (20 September 2021) https://www.cam.ac.uk/sites/default/files/sm6_divestment_report.pdf (accessed 10 December 2024) 112–114.

45 For example, by submitting questions and proposing or endorsing resolutions at the annual general meetings of energy majors and their major financiers: see 'AGM Activism' (ShareAction, 2024) https://shareaction.org/savers-resource-hub/agm-activism (accessed 10 December 2024). In any event, the available evidence in 2022 suggested that shareholder engagement has not delivered any meaningful impact regarding climate mitigation or other ESG issues, at least in respect of oil and gas companies: E Quigley, E Bugden and A Odgers, *Divestment: Advantages and Disadvantages for the University of Cambridge* (20 September 2021) https://www.cam.ac.uk/sites/default/files/sm6_divestment_report.pdf (accessed 10 December 2024) 98–111. Cf. E Broccardo, O Hart and L Zingales, 'Exit versus Voice' (2022) 130 Journal of Political Economy 3101 (which is of limited utility in considering LSE's options given it does not have a direct voice qua shareholder).

46 LSE does not invest directly in external companies but rather invests in funds via the Royal Bank of Canada across a number of asset classes which are actively managed by external fund managers or in passive funds which track

indirect engagement is selecting and annually assessing its external fund managers according to appropriate ESG targets.[47] In doing so, the SRI Working Group recommended – and the School adopted – the incremental screening of LSE's portfolio with the Grantham Institute's TPI tool on Carbon Performance, which rates the performance of oil and gas companies at one of five levels based on several degrees of alignment with the temperature limits of the Paris Agreement.[48] The SRI Working Group recommended that the School avoid investing in companies that are rated at Level 1 or 2, meaning those companies have made no disclosure or do not align with aggregate national pledges (Level 3), let alone the 2-degree (Level 4) or 1.5-degree limits (Level 5) of the Paris Agreement. Yet, as the SRI Working Group acknowledged, 'in the short term this is an imperfect solution as many companies will not yet have been rated by Grantham's TPI' until approximately 2027, which is when the School would review its approach towards fossil fuel assets.[49] But the short term is precisely the term that matters amid a critical decade in climate mitigation.[50] In this light, it is hard to see how the SRI Working Group's minimalist recommendation has assisted any material change in the corporate behaviour of oil and gas companies. It is critical to realise that the School's reduced exposure to 'non-aligned TPI rated stocks' (1.3% as of 2023/24) is not the same as saying that the remaining fossil fuel investments are aligned with the Paris Agreement, given the three levels of partial alignment (from merely national pledges to the 1.5-degree limit) that are encompassed by TPI's Carbon Performance assessment of oil and gas producers.[51]

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a market index. The School's holdings with JP Morgan relate to corporate bond holdings for its working capital and capital development portfolios. The School's holdings with Mercer relate to its investment in a private equity fund managed by Mercer as well as a liquidity portfolio to manage capital calls to this private equity fund. See 'Investment Portfolio as of 31 July 2024' (LSE, 2024) https://info.lse.ac.uk/staff/divisions/Finance-Division/assets/documents/Financial-Accounting-and-Compliance/LSE-Investments/LSE-Investments-at-31-Jul-2024-Old-Format-Final.pdf (accessed 10 December 2024).

47 *SRI Working Group Proceedings and Recommendations* (LSE, 9 May 2022) (on file with authors) 13–16.

48 In simplified terms, Level 1 means no or unsuitable disclosure; Level 2 means not aligned; Level 3 means alignment with aggregate national pleaded; Level 4 means alignment with the 2-degree outer limit; and Level 5 means alignment with the much safer 1.5-degree limit: see 'Corporates (CP & MQ)' (Transition Pathway Initiative, 2024) https://www.transitionpathwayinitiative.org/corporates (accessed 10 December 2024). See also S Dietz and others, *Carbon Performance assessment of oil & gas producers: note on methodology* (Transition Pathway Initiative, November 2021) https://transitionpathwayinitiative.org/publications/uploads/2021-carbon-performance-assessment-of-oil-gas-producers-note-on-methodology (accessed 10 December 2024).

49 *SRI Working Group Proceedings and Recommendations* (LSE, 9 May 2022) (on file with authors) 11–12.

50 In 2022, the IPCC warned that limiting global warming to 1.5 degrees required emissions to peak in 2025 and to be reduced by 43% by 2030: 'IPCC Press Release: The evidence is clear: the time for action is now. We can halve emissions by 2030' (Intergovernmental Panel on Climate Change, 2022/15/PR, 4 April 2022) www.ipcc.ch/site/assets/uploads/2022/04/IPCC_AR6_WGIII_PressRelease_English.pdf (accessed 10 December 2024). The EU's Copernicus Climate Change Service reported that in 2024 the average temperature was above 1.6C versus pre-industrial levels: 'Global Climate Highlights 2024' (Copernicus, 10 January 2025) https://climate.copernicus.eu/global-climate-highlights-2024 (accessed 10 January 2025).

51 Cf. *Financial Statements for the Year ending 31 July 2024* (LSE) https://info.lse.ac.uk/staff/divisions/Finance-Division/assets/annual-accounts/PDF/2023-24-Annual-Accounts.pdf (accessed 10 December 2024) 42. To say nothing of the credibility of energy companies' emissions reduction strategies: see e.g. O Bisel, R Collett-White and M Coffin, *Absolute Impact 2024: Oil and gas companies' emissions targets are not Paris-aligned – with methane a major blind spot* (Carbon Tracker Initiative, November 2024) 16–20 (observing an overreliance on carbon capture

36. As to **weapons,** the SRI Working Group's key conclusions were the following (both are examined further at para. 37 below):[52]

    i. Beyond the 2015 exclusion of weapons that are explicitly banned by arms treaties, the SRI Working Group considered that to screen the School's portfolio for all weapons manufacturing, including those used for sport or defence, would serve no meaningful purpose: 'What would be the rationale behind such a ban?' Weapons are 'a regrettable but essential part of the requirements of societies to protect the vulnerable from criminals and sovereign states from the aggression of war-mongering dictators.'

    ii. A similar conclusion was reached as for fossil fuel divestment (see para. 34(iii) above): 'If such a blanket weapons ban were imposed it would involve, according to Stanhope's analysis below, selling over half of the Growth Portfolio. This would immediately involve cost and risk of loss. This is not saying that other managers could not be found but it is an indication that the larger the constraint, the more likely it is that the portfolio's returns will suffer and lower performing managers might have to be chosen.' Specifically, a total exclusion of companies involved in controversial weapons (including land mines, cluster munitions and nuclear weapons) and small arms would require 'selling all six of the passive vehicles and seven of the sixteen passive funds'.

37. Again, it is respectfully suggested, these conclusions would have benefited from, and might have been altered by, the SRI Working Group's more careful treatment:

    i. There are many possible rationales for an institutional investor – not least an educational institution – deciding to exclude weapons manufacturing from its investment portfolio.[53] The SRI Working Group itself implied one: to prevent those weapons being used in ways that violate international law, such as the crime of aggression.[54] As discussed above, we suspect that this reflexive dismissal of weapons divestment, then and now, stems from the School's reframing away from an expansive agenda of ethical or socially responsible investment towards a narrower one focused on sustainability. Here, for illustrative purposes, we quote three possible rationales for weapons divestment provided by (1) an NGO campaign; (2) a UK university that recently divested from weapons; and (3) a group of LSE's own students:

        1. 'Divestment allows us to: Spark a vital public debate questioning the role of weapons manufacturers and military contractors in incentivizing and perpetuating conflict around the globe; Reveal how our financial and educational institutions play a role in enabling those companies and are

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and storage (CCS) technologies, asset sales to other oil and gas companies, and nature-based solutions (NBS), with significant room for improvement on methane reduction strategies).

52 *SRI Working Group Proceedings and Recommendations* (LSE, 9 May 2022) (on file with authors) 12–13.

53 Even if a strategy of engagement were possible for LSE in respect of weapons manufacturers, to ensure they sell only for defensive purposes, divestment still would have to play a role in driving that engagement. See CE Dawkins, 'Elevating the Role of Divestment in Socially Responsible Investing' (2018) 153 Journal of Business Ethics 465

54 *SRI Working Group Proceedings and Recommendations* (LSE, 9 May 2022) (on file with authors) 12.

thereby complicit in global militarism; Inspire the public and investors to pressure these institutions to divest; Hold the arms industry accountable for its culpability in the death and displacement of millions of innocent people and condemn our government's prioritization of military spending; Demand that diplomacy and aid, not militarism, be our country's response to global conflicts and that our institutions invest in life-affirming programs.'[55]

2. 'The University [of York] will not knowingly invest in companies whose activities include practices which directly pose a risk of serious harm to individuals, society, or the planet, or whose activities are inconsistent with the mission and values of the University. [...] The University does not wish to be associated with companies which breach international law. We expect our investment managers to monitor the companies in the portfolio, and not to invest in companies which breach international law. [...] We have also now divested from direct and indirect equity investment in companies where their primary activity is: armaments and defence.'[56]

3. 'While opponents of divestment claim that it is ineffective in reducing the flow of money to arms and fossil fuel companies, prominent activists and social scientists have repeatedly argued that this misses the point of how divestment stigmatises industries, takes away their social licence to operate, and subsequently influences policymaking. Regarding educational institutions, divestment is a clear way to practise the ethos and values of highly influential universities. Per the Fossil Free Campaign "divestment is the only moral choice for institutions that care about the economy, society, and planet their students are going to inherit." Investment management firms have stated that the manufacture and sale of weapons "inherently threatens the safety and wellbeing of our communities both locally and globally" and that even when weaponry is not used within our local areas they are "are created with the intent to cause destruction and harm to human life in war zones and global communities." Divestment campaigns have the potential to enact lasting structural change, as was the case with the global South Africa Anti-Apartheid Movement.'[57]

ii. Regarding the costs of divestment, we make a similar observation as for fossil fuels (para. 35(iii) above): it is somewhat misleading for the SRI Working Group to highlight that a commitment to weapons divestment would require the School to

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55 'About the Campaign' (Divest from the War Machine, 2024) www.divestfromwarmachine.org/about_campaign (accessed 10 December 2024).

56 *Statement on Responsible Investment* (University of York, 8 April 2024) www.york.ac.uk/media/abouttheuniversity/governanceandmanagement/governance/ethicscommittee/Statement%20on%20Responsible%20Investment%20April%202024.pdf (accessed 10 December 2024).

57 LSESU Palestine Society, *Assets in Apartheid: LSE's Complicity in Genocide of the Palestinian People, Arms Trade, and Climate Breakdown* (May 2024) https://lsepalestine.github.io/documents/LSESUPALESTINE-Assets-in-Apartheid-2024-Web.pdf (accessed 10 December 2024) 27 (footnotes omitted).

sell more half of its Growth Portfolio, insofar as lay readers might infer that LSE would be forced to forego half its possible income stream. In fact, according to Stanhope, the Weighted Total Exposure across the entire Growth Portfolio was merely 0.8% for controversial weapons and 0.6% for small arms.[58] To divest from weapons, therefore, would have required the School to switch its investments to funds that, in substance, were >99% identical to its previous holdings. Hence, the decisive question should have been whether the costs of switching the 6 passive and 7 active funds to weapons-free funds, both in terms of administration and any reduction in future income, would have seriously threatened the endowment's average return objective at CPI inflation +4.5% p.a. over the very long term. The SRI Working Group acknowledged that other funds may be found but suggested that these funds would involve lower performing managers and lesser returns. But this conclusion was seemingly unresearched, reflecting instead the axiom of 'classic investment theory' that 'any constraint on the universe of investible stocks for selection, by definition, reduces return.'[59]

38. Despite the shortcomings of the SRI Working Group's conclusions on fossil fuel and weapons divestment – which are the most salient issues in 2024 – it is important to recall that its 12 recommendations covered a range of admirable innovations that were adopted as the School's 2022 ESG Policy, which remains in force at the time of current consultation. Also in 2022, the LSE immediately divested from exposure to sanctioned entities in the wake of Russia's invasion of Ukraine, still reflected in the Investment Policy:[60]

> 'While investments will not be made in companies from states that are under sanctions or owned/managed by individuals subject to Magnitsky style sanctions issued under the Global Human Rights Sanctions Regulations 2020, otherwise investment choices will have no political bias.'

39. Although Russian divestment was undertaken to comply with UK financial regulations, it also conforms with an implicit standard in the SRI Working Group's own recommendations and its ultimate ESG Policy, namely that the School should not be investing in companies that may reasonably be viewed as engaged in or complicit with violations of international law, ranging from prohibited weapons to climate mitigation obligations under the Paris Agreement. The same standard – alignment with international law – was explicitly invoked amid recent criticisms of LSE's Investment Policy, as discussed in the next section. What is needed, we suggest, is a strengthened framework for assessing when that standard is transgressed, which is the key recommendation made in the present Paper.

58 *SRI Working Group Proceedings and Recommendations* (LSE, 9 May 2022) (on file with authors) 13.

59 *SRI Working Group Proceedings and Recommendations* (LSE, 9 May 2022) (on file with authors) 7.

60 *Environmental, Social & Governance (ESG) Policy* (LSE, November 2022) https://info.lse.ac.uk/staff/divisions/Finance-Division/assets/documents/Financial-Accounting-and-Compliance/PDFs/LSE-ESG-Policy-FINAL.pdf (accessed 10 December 2022) para. 4.

II. Strengthening the Policy: From Political Complexity to Legal Clarity

40. This section recalls the immediate backdrop to the 2024-25 review, which underlines the importance of LSE adopting an updated Investment Policy that is resilient in the face of possible backlash and thus allows for stable management of the endowment. Specifically, we suggest that the standards of international law are the best chance of finding common ground among different stakeholders in the LSE community, present and future, in the face of as yet unknown – and unknowable – challenges. The alternative option is to risk the cyclical disruption of the School's activities due to disquiet among staff and students at Council's investment decision-making.

41. This section recalls Council's response to recent divestment demands (subsection A), suggesting that its emphasis on political complexity has clouded the truly consensual basis for many of those demands in rules of international law (subsection B). Next, we note two subsequent letters from LSE staff, which underscore the importance of international law as a common standard for developing the Investment Policy in a principled manner (subsection C). We repeat our key point: the Council's failure to articulate a sufficiently clear standard or basic principle to drive the development of its Investment Policy has set up the School for cyclical disruption of its investment and other activities, leading to *ad hoc* reviews every couple of years, a situation which is hardly conducive to long-term investment (subsection D).

A. Council's Response to PalSoc's Report: Taking Sides in a Political Dispute?

42. The present review of the Investment Policy was triggered by the publication of an extensive report by the LSE Palestine Society (PalSoc) titled *Assets in Apartheid*, accompanied by a disruptive encampment of the Marshall Building by allied students.[61] The encampment called for reforms in the governance and transparency of LSE's endowment and for immediate divestment 'from all companies involved in crimes against the Palestinian people; extraction and/or distribution of fossil fuels; proliferation and/or manufacture of arms; and financing fossil fuel companies and/or nuclear weapons producers.'[62] After several weeks, students were evicted by court order, an event which was widely reported in media.[63]

43. On 9 July 2024, Council responded to the demands of the encampment, including by setting up the current review of LSE's ESG policy. Council concluded that LSE would not adopt a policy of divesting from 'companies that do business in or with the state of Israel', because the School could not take such a one-sided position on 'an ongoing geopolitical

[61] LSESU Palestine Society, *Assets in Apartheid: LSE's Complicity in Genocide of the Palestinian People, Arms Trade, and Climate Breakdown* (May 2024) https://lsepalestine.github.io/documents/LSESUPALESTINE-Assets-in-Apartheid-2024-Web.pdf (accessed 10 December 2024).

[62] LSESU Palestine Society, *Assets in Apartheid: LSE's Complicity in Genocide of the Palestinian People, Arms Trade, and Climate Breakdown* (May 2024) https://lsepalestine.github.io/documents/LSESUPALESTINE-Assets-in-Apartheid-2024-Web.pdf (accessed 10 December 2024) 6–8.

[63] 'Court order bans encampments in LSE building after pro-Palestine protest' (*The Guardian*, 28 June 2024) www.theguardian.com/education/article/2024/jun/28/court-order-bans-encampments-in-lse-building-after-pro-palestine-protest (accessed 10 December 2024); J Kelly, 'Pro-Palestine students end LSE building encampment' (*BBC News*, 17 June 2024) www.bbc.co.uk/news/articles/cv22539gzj4o (accessed 10 December 2024).

dispute with many complex dimensions'.[64] It went on to distinguish such a call from its more general policy towards fossil fuels and arms: 'There is a *well-established global consensus* on the necessity of transitioning from fossil fuels to other forms of energy, while modifying our investment screen as to arms takes no one's side.'[65] But the Council 'rejected as infeasible' the possibility of divesting from institutions that finance the targeted industries: 'In our highly complex, interconnected global financial system, financial institutions' positions, investments, and assets change regularly and with dizzying speed.'[66]

44. Complexity, indeed, was the watchword of the Council's response to PalSoc. Yet the School has already taken steps towards addressing the complexity of ESG investing across a range of other issues and, indeed, is compelled to do so in respect of sanctioned Russian entities. The latter example is instructive: although the geopolitical conflict between Russia and Ukraine has many complex dimensions, the rationale for LSE's divestment was clearly based on breaches of international law – Russia's unlawful aggression – and their condemnation in the form of UK sanctions legislation.[67] It is equally important not to overstate the political complexity of PalSoc's divestment demands – which were plainly advanced against the backdrop of geopolitical conflict – when the specific bases for many of those demands find common ground with LSE's own track record of developing its Investment Policy according to standards of international law, as discussed in Section I of this Paper, ranging from controversial weapons that are banned by multilateral treaties to the net zero pathways required by the temperature limits of Paris Agreement.

B. *Another Reading of PalSoc's Report: Upholding the Rule of Law?*

45. Whereas Council highlighted the *politically one-sided* dimensions to PalSoc's report, here we highlight the *legally consensual* dimensions of the same report, in the interests of drawing attention to international law as a bridge between the current Investment Policy and the wider concerns of the LSE community.
46. PalSoc's report contains over 30 references to international law, a selection of which are quoted by way of illustration:

    i. 'Israeli crimes and violations of international law include the genocide in Gaza; the ethnic cleansing of Palestinians; the military occupation and settlements in the Occupied Palestinian Territory, which are illegal under international law; the

[64] Memorandum of Council, *LSE Council Response to Calls for Divestment* (9 July 2024) https://londonschoolofeconomicscommunications.newsweaver.com/icfiles/2/76729/311961/1336467/5d113e6fe91da1654e0600aa/lse_council_response_to_calls_for_divestment_july24.pdf (accessed 10 December 2024) 5.

[65] Memorandum of Council, *LSE Council Response to Calls for Divestment* (9 July 2024) https://londonschoolofeconomicscommunications.newsweaver.com/icfiles/2/76729/311961/1336467/5d113e6fe91da1654e0600aa/lse_council_response_to_calls_for_divestment_july24.pdf (accessed 10 December 2024) 6 (emphasis added).

[66] Memorandum of Council, *LSE Council Response to Calls for Divestment* (9 July 2024) https://londonschoolofeconomicscommunications.newsweaver.com/icfiles/2/76729/311961/1336467/5d113e6fe91da1654e0600aa/lse_council_response_to_calls_for_divestment_july24.pdf (accessed 10 December 2024) 6.

[67] 'UK sanctions relating to Russia' (FCDO, 10 October 2024) www.gov.uk/government/collections/uk-sanctions-on-russia (accessed 10 December 2024).

mistreatment of Palestinians in Israel as second-class citizens; and the refusal to honour the right of return of Palestinian refugees.'[68]

ii. LSE should '[e]xpand ESG commitment to "human rights" to include an explicit commitment to International Humanitarian Law and human rights law and divestment from holdings that violate human rights.'[69]

iii. 'Beyond universities and schools, museums, archives, libraries, and archaeological sites have also suffered damage or been completely destroyed. These sites were not only critical to the knowledge infrastructure in Gaza, but also Palestinian cultural heritage. As the British Society for Middle Eastern Studies and the Middle East Studies Association have claimed, these Israeli actions go against international human rights law, including the International Covenant on Economic, Social, and Cultural Rights, and International Humanitarian Law, including the Fourth Geneva Convention.'[70]

iv. 'The UN's Guiding Principles on Business and Human Rights is more directly applicable to the issue of responsible investment. This publication addresses the responsibilities of states and business enterprises respecting and upholding international human rights and asserts that this "exists over and above compliance with national laws and regulations protecting human rights."'[71]

v. 'Magnitsky style sanctions are used against individuals who are human rights offenders. A similar sanction regime was recently imposed by the US and the UK on Israeli "extremist settlers". However, both sanction regimes provide a narrow framework as they are predicated on the actions of the UK government and not on UN or other internationally binding principles. The case of the sanctions on Israeli settlers is illuminating in this respect. All settlements in the West Bank are illegal under international law, and this is the clear position of the UK government. Therefore, any settler living in the West Bank is violating international law; signalling out four individuals is a performative gesture. Thus, relying on sanction decisions by the UK government will often be inadequate. Instead, relying on the international human rights community, which provides rapid calls for action and

68 LSESU Palestine Society, *Assets in Apartheid: LSE's Complicity in Genocide of the Palestinian People, Arms Trade, and Climate Breakdown* (May 2024) https://lsepalestine.github.io/documents/LSESUPALESTINE-Assets-in-Apartheid-2024-Web.pdf (accessed 10 December 2024) 4.

69 LSESU Palestine Society, *Assets in Apartheid: LSE's Complicity in Genocide of the Palestinian People, Arms Trade, and Climate Breakdown* (May 2024) https://lsepalestine.github.io/documents/LSESUPALESTINE-Assets-in-Apartheid-2024-Web.pdf (accessed 10 December 2024) 7.

70 LSESU Palestine Society, *Assets in Apartheid: LSE's Complicity in Genocide of the Palestinian People, Arms Trade, and Climate Breakdown* (May 2024) https://lsepalestine.github.io/documents/LSESUPALESTINE-Assets-in-Apartheid-2024-Web.pdf (accessed 10 December 2024) 14–15.

71 LSESU Palestine Society, *Assets in Apartheid: LSE's Complicity in Genocide of the Palestinian People, Arms Trade, and Climate Breakdown* (May 2024) https://lsepalestine.github.io/documents/LSESUPALESTINE-Assets-in-Apartheid-2024-Web.pdf (accessed 10 December 2024) 33.

is more representative of the world to which LSE aspires, would be more in line with the spirit of supporting human rights.’[72]

47. Our purpose here is not necessarily to endorse these recent allegations of Israel’s illega activity,[73] but rather to highlight how the standards applied by PalSoc are not purely political or ethically complex, as Council would have it. Instead, PalSoc points to a well-established global consensus reflected in positive rules of international law, in a similar way to which LSE has previously justified the development of its Investment Policy in respect of fossil fuels and weapons, as discussed in the previous section.

48. International law directly imposes obligations on States, not investors like LSE, so the question arises how best to transform those obligations into an operative Investment Policy. The answer is crystal-clear in respect of Magnitsky style sanctions – compulsory divestment, in accordance with UK law – though less so in respect of human rights or environmental obligations. Significant guidance may be gleaned from the UN Guiding Principles on Business and Human Rights and, of course, by the range of metrics in the investment community regarding alignment with the Paris Agreement, including the Grantham Institute’s TPI tool which LSE has adopted for its fossil fuel strategy. Yet PalSoc was quite right to observe that LSE’s ESG Policy contains ‘a stronger focus on environmental issues, and by extension fossil fuel extraction, than on arms proliferation and human rights violations. There are no references to international human rights law and International Humanitarian Law.’[74] How to address the latter areas of international law has also been considered by other members of LSE community, namely staff.

C. Subsequent Views of LSE Staff: International Law as a Common Standard

49. After the Council’s response to PalSoc’s report, two letters from LSE staff have underscored the importance of international law as a common standard for the principled development of the School’s Investment Policy.

50. First, on 6 September 2024, a large group of LSE staff signed a letter to Council, which supported the calls in PalSoc’s report for increased transparency and certain divestments. More importantly, for present purposes, the staff signatories voiced a concern that Council had politicised the demands of PalSoc when in fact they had been

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72 LSESU Palestine Society, *Assets in Apartheid: LSE’s Complicity in Genocide of the Palestinian People, Arms Trade, and Climate Breakdown* (May 2024) https://lsepalestine.github.io/documents/LSESUPALESTINE-Assets-in-Apartheid-2024-Web.pdf (accessed 10 December 2024) 33.

73 Whereas the illegality of Israel’s occupation of the Occupied Palestinian Territory is now well established by the ICJ, the allegation of genocide in Gaza is yet to be proved in a judicial setting, though the Court accepted in its orders on provisional measures that there is a real and imminent risk of irreparable prejudice to the rights of Palestinians under the Genocide Convention: see respectively *Legal Consequences arising from the Policies and Practices of Israel in the Occupied Palestinian Territory, including East Jerusalem*, ICJ, Advisory Opinion (19 July 2024) www.icj-cij.org/case/186 (accessed 10 December 2024); *Application of the Convention on the Prevention and Punishment of the Crime of Genocide in the Gaza Strip (South Africa v Israel)*, ICJ, Order (24 May 2024) www.icj-cij.org/sites/default/files/case-related/192/192-20240524-ord-01-00-en.pdf (accessed 10 December 2024).

74 LSESU Palestine Society, *Assets in Apartheid: LSE’s Complicity in Genocide of the Palestinian People, Arms Trade, and Climate Breakdown* (May 2024) https://lsepalestine.github.io/documents/LSESUPALESTINE-Assets-in-Apartheid-2024-Web.pdf (accessed 10 December 2024) 5.

clearly grounded in standards of international law. Although the letter is lengthy, the following three excerpts are illustrative:[75]

i. 'We believe the refusal to consider divestment as first an ethical judgement involving the School's commitment to human rights standards and second a legal matter involving respect for international law, represents a choice that, contrary to the School's aim to remain institutionally neutral, will appear to observers as politically partial.'

ii. '**Investment decisions regarding human rights violations should emerge from clear legal and ethical guidelines that can be applied to all cases as they arise**. In establishing a sustainable response to any pressure regarding divestment, clear standards, expectations, policies, criteria, and evidence should be used to make a determination. As a world-leading institution of higher learning with internationally-renowned experts on pertinent subjects, such as human rights, international law, climate change, business and human rights, etc, the LSE is particularly well-placed and capable of setting such standards and assessing situations against them. Those who are committed to any global or domestic issue would then engage in a fair and well-established environment. We suggest that such guidelines include the decisions and reporting of international bodies, such as the ICC, ICJ, and UN agencies. They should also refer to non-governmental human rights and civil society organisations, especially those that are based within the locality in question. Investments in companies that support states that are plausibly committing international crimes (including war crimes, crimes against humanity, and genocide) should also cease.'

iii. '**Continued investment in businesses complicit in human rights violations and crimes against the Palestinian people is an unethical institutional position.** The School has been presented with evidence that it holds investments, as of July 2023, in businesses that are complicit in crimes against the Palestinian people. To continue *knowingly* to invest in such entities, independently found to be directly implicated in serious human rights violations as well as illegal activity, signals that human rights are then *not* part of the School's ethical value system and that the School is indifferent to international law. Furthermore, treating continued investment as apolitical and divestment as political has the inescapable implication of perpetuating and tacitly approving of the status quo, i.e. longstanding and serious violations of international law, including military occupation with an intent to annex, unlawful settlement, and systematic discrimination.'

51. Second, on 1 October 2024, all of the LSE Law School's teachers of international law wrote to Council enquiring how the LSE would respond in its investment decision-making to an advisory opinion (AO) of the International Court of Justice (ICJ) on *Legal Consequences Arising from the Policies and Practices of Israel in the Occupied*

[75] *Letter from LSE Staff to the School's Council and Management Committee Following Their Decisions in Respect of Divestment Proposals* (6 September 2024) (emphases in original).

Palestinian Territory, Including East Jerusalem, delivered 19 July 2024 (notably, 10 days after the Council's formal response to PalSoc's calls for divestment).[76]

52. After acknowledging the Council's concern to safeguard the endowment from political complexities, the 10 co-signatories wrote:[77]

> '[O]ur view is that the ICJ's AO is not a politically contentious decision but rather one that provides authoritative guidance in response to a request from the UN General Assembly (UNGA), adopted 30 December 2022, regarding several questions of international law. The Court's main conclusion was that '*Israel is under an obligation to bring to an end its unlawful presence in the Occupied Palestinian Territory as rapidly as possible*', such that all States and international organisations are obliged neither to recognise the situation as lawful nor to render assistance that may maintain the illegal situation. Notably, the Court directed all States ***'to take steps to prevent*** *trade or* ***investment relations that assist in the maintenance of the illegal situation*** *created by Israel in the Occupied Palestinian Territory'* (our emphasis).
>
> 'Already, in September 2024, the UK suspended dozens of arms export licences to Israel that presented a clear risk that they might be used to commit serious violations of international humanitarian law. In response to the Court's guidance, the government may be expected also to prevent certain investment relations among public and private actors that assist in maintaining Israel's illegal occupation of the West Bank and Gaza.[78]
>
> 'By moving first, however, **the LSE may position itself as a leader among world universities in upholding the international rule of law, at a time when that ideal is increasingly fragile**. [...]
>
> 'We have no fixed view on how the Council should respond to the Court's AO to **ensure that no investment relations of the LSE may reasonably be viewed as assisting in the maintenance of the illegal situation created by Israel**. Such a response might, for example, distinguish any '*companies that do business in or with the state of Israel*' (Council's *Response*, July 2024) from those involved more directly in the maintenance of an illegal situation in the West Bank and Gaza.'

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[76] *Legal Consequences arising from the Policies and Practices of Israel in the Occupied Palestinian Territory, including East Jerusalem*, ICJ, Advisory Opinion (19 July 2024) www.icj-cij.org/case/186 (accessed 10 December 2024).

[77] Letter to Professor Larry Kramer and members of the LSE Council from Professors Gerry Simpson, Susan Marks, Stephen Humphreys and seven other Associate and Assistant Professors and Fellows, *Re: LSE's investment relations in the light of international law* (1 October 2024) (on file with authors) (bold emphases in original).

[78] Indeed, two weeks after this letter, the UK government imposed new sanctions on illegal settler outposts in the West Bank and related organisations, with the Foreign Secretary stating: 'Today's measures will help bring accountability to those who have supported and perpetrated such heinous abuses of human rights. The Israeli government must crack down on settler violence and stop settler expansion on Palestinian land. As long as violent extremists remain unaccountable, the UK and the international community will continue to act.' See 'New UK sanctions target illegal outposts and organisations supporting extremist Israeli settlers in the West Bank' (FCDO, 15 October 2024) www.gov.uk/government/news/new-uk-sanctions-target-illegal-outposts-and-organisations-supporting-extremist-israeli-settlers-in-the-west-bank (accessed 10 December 2024).

53. Although they differ in length and degrees of prescription, these two staff letters converge on international law as a basic principle for the LSE to take seriously in the development of its Investment Policy, lest the School itself be accused of adopting a covert politics by refusing to apply the same standards that implicitly informed its past development of the Policy.

D. Alternative Scenario: Cyclical Disruption of the School's Activities

54. We recall the danger of failing to adopted a stable framework for the School's investment activity that is resilient to future challenges. Now is the third time in a decade that Council has commissioned a review of its Investment Policy. The development and operation of such reviews are time- and labour-consuming; suffer from a loss of knowledge through the lack of institutional continuity (consider, for instance, the fact that Mercer's 2015 report, which underpinned the SRI Policy, cannot be located); and are prone to be politicised by both axiomatic opposition to divestment and more radical calls to democratise the endowment. LSE should the seize the opportunity to clarify the basic principle underlying its Investment Policy and to establish a transparent procedure for its implementation. A failure to do so may lead to cyclical disruption of the School's activities due to antipathy from the LSE community, with the likelihood of future ad hoc reviews. This alternative scenario is hardly conducive to stable management of the endowment and cannot help the Council in fulfilling its fiduciary obligation.
55. An underlying problem that emerged from our survey is a failure by Council and its governance bodies to articulate the standard or principle by which they should develop and implement the School's Investment Policy. As discussed above, the Investment Policy's original framing as ethical or socially responsible investment has been supplanted by an emphasis on sustainability or ESG. Yet an implicit standard has been to ensure that LSE's investment decisions are aligned with international law, most explicitly the Paris Agreement and several weapons treaties. That is precisely the standard that has been articulated by PalSoc and LSE staff in successive reports and letters.
56. A troubling mismatch between the concerns raised by the LSE community – which are clearly grounded in references to international law – and the responses of Council – which amplify the political complexity and never address the legal standards – is bound to foster antipathy among staff and students and a general sense that the School's Investment Policy is greenwashing for ordinary (non-ESG) decision-making.[79] Even the School's flagship concern for climate change has not translated into an investment policy that reflects the legal limits on global warming set by the Paris Agreement or the level of urgency required to mitigate greenhouse gas emissions, given its current policy to wait and see whether TPI metrics on oil and gas companies are better developed in 2027.
57. That is a shame, because the Investment Sub-Committee and its fund managers have done remarkable work to grow the endowment for the financial health of the School and

[79] The ESG Policy itself demands 'rigorous intellectual analysis to all proposed ESG policies for implementation recognising the dangers of green-washing and virtue signalling of popular solutions': *Environmental, Social & Governance (ESG) Policy* (LSE, November 2022) https://info.lse.ac.uk/staff/divisions/Finance-Division/assets/documents/Financial-Accounting-and-Compliance/PDFs/LSE-ESG-Policy-FINAL.pdf (accessed 10 December 2022) para. 1(d).

for future generations of students. It is thus in the interest of Council and the LSE community as a whole to establish a more durable framework – in substance and procedure – that allows for specific ESG issues to be addressed in a principled manner, with a sufficient degree of transparency and oversight to assure all stakeholders that the Investment Policy is being implemented correctly. Otherwise, the School can expect cyclical backlash, so long as it professes an Investment Policy based on 'well-established global consensus' but ignores the most important standards of international law.[80]

[80] Memorandum of Council, *LSE Council Response to Calls for Divestment* (9 July 2024) https://londonschoolofeconomicscommunications.newsweaver.com/icfiles/2/76729/311961/1336467/5d113e6fe91da1654e0600aa/lse_council_response_to_calls_for_divestment_july24.pdf (accessed 10 December 2024) 6.

III. Two Proposals: A Framework Fit for Prudent Fiduciaries

58. For the avoidance of doubt, we do not question whether the Council has properly discharged its fiduciary obligation within agreed risk parameters by setting the endowment's average return objective at CPI inflation +4.5% p.a. over the very long term.[81] The focus of this Paper has been to trace how the School's pursuit of this objective has also been conditioned by ethical or ESG parameters on investment decision-making. While it is up to the School's fund managers to make decisions that conform with its Investment Policy, the content of the Policy itself cannot be determined by whichever investment options make it easiest to achieve the growth objective.
59. We note that the object of the School is 'to advance education, learning and research for the public benefit'.[82] Investment decisions must be in accordance with, and not contradict, this object. Indeed, the investment decision-making of Council and its fund managers can never be siloed from global issues, particularly in an educational institution committed to freedom of expression. There is a clear difference between political controversy and breaches of law. So, a prudent fiduciary would surely establish a framework that helps it to determine which global issues are purely of a political character, and thus irrelevant to ESG investing, and those which are grounded in genuine concern for the international rule of law. That concern has been identified in this report as a common standard that underpins the past development of LSE's Investment Policy, PalSoc's report, and the views of LSE staff. In the absence of a more objective standard for the Council to determine which issues have met a 'well-established global consensus',[83] versus those which are too politically complex, we suggest that the Investment Policy at LSE must contain sufficiently clear criteria for determining whether a company may reasonably be viewed as engaged or complicit in activities that violate international law.
60. Relatedly, we recall that the Investment Policy was once called the SRI Policy, explicitly focused on balancing ethical objectives against financial return, which was implemented by the Council's Investment Committee and then overseen by the Ethics Policy Committee. Now, the 2022 ESG Policy has been reframed around sustainability, *implemented and overseen* by the Investment Sub-Committee, albeit with input from the Sustainability Leadership Group. Given the recent backlash and history of *ad hoc* reviews, this arrangement does not promote transparency or provide appropriate channels for input from the LSE community.
61. As first steps towards strengthening the Investment Policy, we propose to align the School's investment decisions with international law and to establishing a permanent consultative group to oversee its implementation. The purpose of these preliminary proposals is to focus the review process on the basic principle underlying the

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[81] C Butler, *Presentation to the Consultation Group: Session 1: Portfolios Values, Comparative Endowments, Investment Risk and Return Targets, Sample Asset Allocation* (12 November 2024) (on file with authors).

[82] Articles of Association of the London School of Economics and Political Science (Company Number 00070527) (adopted by Special Resolution on 5 July 2022), cl 2.1 https://info.lse.ac.uk/staff/services/Policies-and-procedures/Assets/Documents/artoAsso.pdf (accessed 10 December 2024).

[83] Memorandum of Council, *LSE Council Response to Calls for Divestment* (9 July 2024) https://londonschoolofeconomicscommunications.newsweaver.com/icfiles/2/76729/311961/1336467/5d113e6fe91da1654e0600aa/lse_council_response_to_calls_for_divestment_july24.pdf (accessed 10 December 2024) 6.

development of the Investment Policy and the best means of implementing the Policy in a transparent manner. These proposals are meant to provide a foundation or framework for more specific recommendations that will be formulated in subsequent papers of the ESG Consultative Group, following the feedback of the ESG Review Group and other stakeholders in the LSE community.

A. Principle: Aligning Investment Decisions with International Law

62. We propose that investment decisions of Council explicitly align with international law, which we take to be the most objective, consensual standard to make the School's Policy resilient to future challenges. As such, we offer the following draft principle as a possible addition to the 2022 ESG Policy, which may be further supplemented by more specific clauses (in respect of fossil fuels, weapons, tobacco, etc.) and must be read together with our procedural proposal for a permanent Consultative Group outlined in subsection B:

Draft principle: investments that may violate international law

1. *The Investment Sub-Committee must ensure that no investments are held, directly or indirectly, in companies that may reasonably be viewed as engaged or complicit in activities that violate international law, having regard to clause 5 (below).*
2. *Before making an investment, the Investment Sub-Committee must determine whether any asset raises a plausible concern that it would not comply with clause 1. If there is such a concern, the Investment Sub-Committee must take the advice of the Consultative Group before determining whether or not to exclude the asset.*
3. *Once an investment is made, the Investment Sub-Committee must ensure compliance with paragraph 1 on an ongoing basis. If any plausible concern is brought to the attention of the Investment Sub-Committee, including by the Consultative Group itself, the Investment Sub-Committee must take the advice of the Consultative Group before determining whether or not to sell the investment. The asset must be sold if it no longer complies with clause 1, unless the Investment Sub-Committee determines in its fiduciary capacity that selling the investment is likely to prevent the School from reaching the endowment's return target.*
4. *If requested by the Consultative Group, the Investment Sub-Committee must give reasons for any decision made under clause 2 or 3 as soon as practicable. All decisions made by the Investment Sub-Committee in a financial year must be publicly reported, with reasons if they were previously requested by the Consultative Group.*
5. *In determining whether or not an investment complies with clause 1, the Investment Sub-Committee and the Consultative Group shall have regard to, where relevant and available:*
    a. *the UK's domestic law;*
    b. *international agreements and any implementing statute and regulations;*
    c. *the decisions of domestic courts in the UK and other countries;*

d. *the decisions of international courts and tribunals;*

e. *the most current standards of corporate behaviour, such as the OECD Guidelines for Multinational Enterprises, the assessment tools of the Transition Pathway Initiative, and the UN Guiding Principles on Business and Human Rights;*

f. *the reports of independent investigators into alleged violations; and*

g. *the advice of legal or other relevant experts*.

B. Procedure: Establishing a Permanent Consultative Group

63. We propose the creation of a permanent Consultative Group to advise the Investment Sub-Committee in the event of any plausible concern that an intended or existing investment relates to a company that may reasonably be viewed as engaged or complicit in activities that violate international law.

64. The composition of a permanent Consultative Group should be modelled on the one established for the present review of the ESG Policy, comprising three students, three academic staff, and three professional services staff. At present, we take no position on whether the members should be selected randomly, elected by ballot, or appointed by other representative bodies. However, the Consultative Group should be chaired by a member of staff. The Consultative Group should meet at least twice a term – depending on the needs of the Investment Sub-Committee – and be authorised to seek input from the LSE community and to solicit advice from legal or other relevant experts (both in and outside of LSE) where necessary to carry out its functions.

65. To ensure close cooperation through partly overlapping membership, we recommend that two positions in the Consultative Group are filled by the LSESU nominee and one of the two Academic Board nominees to the Investment Sub-Committee.[84]

66. Focusing on the procedural terms of the draft substantive proposal, the preliminary screening threshold of 'plausible concern' (clauses 2 and 3) is designed to allow the Investment Sub-Committee and its fund managers to get on with their primary business without intrusive oversight by the Consultative Group. We anticipate that any concerns of the LSE community would be raised with either the Consultative Group or the Council directly, with the plausibility threshold serving to filter out any lesser concerns. Although the obligations are directed to the Investment Sub-Committee, the ongoing requirement to ensure compliance would likely be delegated to fund managers and thus form part of the annual manager assessment, at the very least.

67. The decisive screening threshold of 'may reasonably be viewed as engaged or complicit in activities that violate international law' (clause 1) is designed to capture companies

[84] For the full membership of the Sub-Committee, see 'Investments Sub-Committee' (LSE, approved by Council on 19 November 2024, due for review Autumn Term 2025) https://info.lse.ac.uk/staff/divisions/Secretarys-Division/Assets/Documents/Governance/Committees-of-Council/TORs-and-SOs/Investments-Subcommittee-ToR.pdf (accessed 10 December 2024). For current members, see 'Committees of Council: Details for 2024/2025)' (LSE, 2024) https://info.lse.ac.uk/staff/divisions/secretarys-division/governance/committees-and-working-groups (accessed 10 December 2024).

that are active participants in alleged violations as well as those providing goods or services which are instrumental to those violations, whilst allowing a margin of reasonableness for the Investment Sub-Committee and Consultative Group in their determination of whether the relevant and available sources of international law (clause 5) require the investment to be excluded or sold (clauses 2 and 3). Ultimately, any decision to divest rests with the Investment Sub-Committee in exercising the Council's fiduciary obligation, which is why the requirement to divest is expressly qualified by the Investment Sub-Committee's determination that 'selling the investment is likely to prevent the School from reaching the endowment's return target' (clause 3).

68. A record of decisions made under clauses 2 and 3 would be published annually (clause 4), thus increasing transparency in the School's investment decision-making. However, to ensure that the Investment Sub-Committee's workload is not increased disproportionately, it would only have to give reasons for its decision on the request of the Consultative Group (clause 4). Both bodies would thus be expected to cooperate in good faith.

IV. Next Steps: Five Issues for Consultation

69. The two proposals in the previous section were designed to provide a baseline for the principled development of the Investment Policy. They are starting points, not end points, for an ambitious Policy that should be developed through further consultation with the ESG Review Group and wider LSE community over the coming weeks and months. This final section mentions five non-exhaustive issues that may provide next steps for consultation, alongside the overarching principle and procedure to align LSE's investment decisions with international law.

70. First, what is the appropriate frame or label for the School's Investment Policy? Whereas the 2015 SRI Policy was based on the School's commitment to ethics and social responsibility, the 2022 ESG Policy has been implemented in line with industry-led metrics and without regard to the ethical positions that may be expected from a world-class institution with an express object to advance education, learning, and research for the public benefit. As discussed, the shift from social responsibility towards ESG has led Council to dismiss recent appeals for School to divest from companies as purely political or ethically complex, even though the true basis for those appeals was international law. The LSE community's Investment Policy should fully reflect the legal and ethical dimensions, not simply the industry's current understanding of ESG issues.

71. Second, aside from aligning the Investment Policy with international law, the School's Investment Policy should specify the other values of LSE that form the basis for the Policy. For example, such values may be informed by the School's existing Ethics Code. More generally, there should be clearer guidance as to how, if at all, the Investment Policy is informed by LSE's other areas of ethical and sustainability decision-making, including the policies used to screen the philanthropic donations received by the School.

72. Third, if divestment from certain sectors is adopted as the most effective means of aligning the endowment with international law and LSE's wider values, the School must adopt robust criteria for removing its exposure to arms and fossil fuels companies. Such criteria should account for the complexity of multinational corporate activity (e.g., by specifying which percentage of revenues must come from an excluded activity in order for a diversified company to qualify for exclusion) and LSE's substantial investments in mutual funds with limited transparency.

73. Fourth, whether the School should set more ambitious targets for aligning the endowment with TPI's Carbon Performance scores for non-energy companies, particularly in respect of financial institutions that fund fossil fuel production. Similar targets may be explored in respect of financial institutions that fund arms companies.

74. Finally, beyond the proposed creation of a permanent Consultative Group, the School should adopt procedures that increase transparency across all of LSE's investments, particularly those in real estate and private equity mutual funds.

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Notes on Governance and Social Investment Workshop

Prepared by members of the Consultative Group

BACKGROUND

The workshop took place on 25 February and was facilitated by Danny Hatem. Attendess were divided among two tables. In addition to 5 members of the Consultative Group, there was one member from the ESG Review group and approximately 8 (not 100% confirmed) members of the LSE community (students and staff).

Attendees were given a printed text and questions for discussion. There was a report-back session after each question, but questions 2 and 3 were discussed together.

The text and questions are reproduced below followed by notes related to each question and some overall questions for further discussion.

TEXT FOR DISCUSSION

Broad Overview

"**ESG**" stands for **Environmental**, **Social** and **Governance**. It refers to how companies manage these three aspects of their business. ESG criteria are used by investors to evaluate companies based on their social, environmental and governance practices. It is important to note that most ESG scores measure to what extent a company accounts for ESG risks; they are not a measure of how responsible or ethical a company is.

The Social component of ESG relates to the way companies affect society. Obviously, there are many ways for a business to affect society, but some of the most common elements are:

- **Labour Practices**: related to safe working conditions, fair wages, and the freedom of association for its employees
- **Community Engagement and Development**: related to contributing to local communities' needs, often referred to as corporate social responsibility (CSR)
- **Human Rights**: related to upholding human rights across the company's supply chain
- **Diversity and Inclusion**: related to equal opportunities for employees, promoting a diverse and inclusive workplace

The Governance component of ESG relates to the ways that companies are managed and how that management is held accountable for its decisions. Like the Social component, the Governance component comprises myriad issues, but some of the most common are:

- **Corporate Management**: related to decision-making structures, board composition and executive compensation
- **Transparency**: related to reporting mechanisms on financial and non-financial issues
- **Business Ethics**: related to corruption, conflicts of interest, and compliance with regulations

- **Risk Management**: related to policies and procedures to identify and mitigate potential risks

Questions for Discussion and Feedback

In this session, we have three big questions we'd like you to consider:

- What do you think about the elements that form part of the Social and Governance components of an ESG policy? Are some more important than others and why? And are there components not listed here that should be considered by the Review Group?
- Some have argued that as a university, LSE is a very different institution from many others in society. Do you agree? Is the answer relevant to LSE's investment policies, and if so, how?
- LSE has its own social and governance responsibilities, many of which are detailed in its Ethics Code and various other policies. Is this relevant to its investment policies, and if so, how?

NOTES FROM DISCUSSION

1. What do you think about the elements that form part of the Social and Governance components of an ESG policy? Are some more important than others and why? And are there components not listed here that should be considered by the Review Group?

    - There was an initial comment that our discussion was already being limited by Council's decision to not engage in "geo-political controversies".
    - There was a general feeling that the list of items under S and G in the prompt were all agreeable but lacked specifics. Eg who is against fair labour practices? Also, how do you approach human rights in an apolitical way? Divorced from its geopolitical context? Are companies who promote single-use plastics (eg coca cola) considered under S and G?
    - There was a question on how the S and the G overlap with LSE's sustainability strategy. Is sustainability completely under the E of ESG? How does the framing of ESG connect with existing concepts being deployed within the School?
    - How does S and G connect with the Corporate Sustainability Reporting Directive (CSRD)?
    - ESG seems like a baseline rather than an aspiration for investment
    - Should we be thinking about topics/sectors that we don't want to invest in and work from there? Eg border policing? Also do we have issues we want to contribute to eg "just sustainable transition"? How are these two aspects (sectors we don't want to invest in and sectors we do) rely on a shared basis of values and ethics?
    - How do we make S and G authentic for LSE specifically? Similar exercises are being done in the Sustainability Strategy already. S and the G seems generic. If we start from issues we care about as an organisation maybe we can make a list that is more authentic.
    - One idea is to think from a particular company and work out. For example, if we did take Coca Cola and think through sustainability what would that look like in terms of activities we should or should not be investing in.

    - Environment lacking in description
    - Governance feels easier to manage
    - Implementation seems complex – uncertainty always seem presences – can you measure ESG metrics on quant and/or qual?
    - Should the financial returns target be reduced to create more space for investment in line with ESG goals?
    - Community engagement e.g. cocoa cola bottling plant
    - Oversight/transparency?
    - Trade-offs between ethics and returns – middle ground?
    - Growth target?
    - Labour practices, human rights, esp supply chains
    - Progressive transparency
    - Presupposes real engagement with fund managers, given lack of direct engagement
    - Have ESG criteria is reliant on the ability to exclude – therefore implied when adopting an ESG policy

2. Some have argued that as a university, LSE is a very different institution from many others in society. Do you agree? Is the answer relevant to LSE's investment policies, and if so, how?

    - Yes, universities are different, models of change
    - Take the opportunity to set the tone – what's coming after
    - Universities are future thinkers – making the world a better place, lead in change rather than follow the bare minimum
    - We need to be more honest about who we are – the values we purport to have and our internal practices
    - LSE a research, teaching and education organisation; policies that contradict its core functions and departments (eg Grantham and Sustainability Institute) undermine its mission.
    - LSE needs to define its own brand of what ESG is, and the enact it
    - Would be good to see more collaboration among other universities; together would be a stronger influencing force in creating financial investment vehicles
    - Is LSE behind the curve or ahead of the curve when to comes to investment policy (implication that behind the curve is not advantageous both from a reputational and economic perspective)
    - LSE's proximity to corporate London should provide us with an opportunity to influence key players in this space
    - Expectation that LSE looks beyond UK law and has a global view when making decisions

3. LSE has its own social and governance responsibilities, many of which are detailed in its Ethics Code and various other policies. Is this relevant to its investment policies, and if so, how?

    - Who is actually making decisions – how does council agree/vote? What if council cannot reach consensus on issues? Maintain the status quo?
    - How is it decided who sits on Council and how long they stay on Council for?
    - Whole process doesn't feel transparent
    - There needs to be student presentation at council level to represent interests
    - Perhaps a continuous ESG/investments steering group, with student representation
    - Yes, the Ethics code should be linked
    - There is an expectation that ESG policies would feed into investment decisions, even if in conflict to strongest financial returns; there needs to be some language drafted that explains the fiduciary duty of Council members in relation to stewarding the monies of a charity in education rather than a for-profit entity or even another charity type. At present, it is not clear how Council members would approach their responsibilities in a different way than if there were sitting on the Board of a private company.

    - We have a responsibility to act and make positive decisions, including decision to divest and positive investing.
    - ESG policy is currently too vague
    - As soon as you write something down., you are limited by it
    - Policy doesn't create change

OVERALL QUESTIONS FOR FURTHER DISCUSSION

- What do we want to work towards as a brand that is 'authentically LSE'? What are the LSE values and how do they thread through from our founding mission 'betterment of Society' to practical application today? How do we make that agile and responsive to emerging ethics and codes of practice (like Corporate Sustainability Reporting Directive (CSRD)?
- Are we willing to invest in something that is contrary to our base values and teachings?
- How do the fundraising ethics, sustainability strategy and investment strategy link together into one authentic LSE position, framework and narrative?
- Do we want to be Leaders or Laggards in this?
- Are we really comfortable to see supply chains divorced from the political context in which they exist?
- Can we ask specific questions, like: Do we want to invest in Border enforcement, The Police as we build out a framework etc
- If we use D&I and Transparency in our ESG statement then we must surely apply that to our investments? Are they transparent? Is there diversity of decision makers and diversity of thought in the way we are making investment decisions?
- Are we clear enough in how we expect fund managers investing on behalf of the School to operate – have they got a framework to represent the School or free rain?
- Have we fully explored collaborations with other universities to convene a more powerful voice on specific University sector expectations on ESG Investments?
- The key question on behalf of the School is why wouldn't LSE have transparent ESG Investment practices? What is really holding us back? Have we really tested the returns from ESG that can at least match the current portfolio with an ESG investment expert? Are we resistant to change or embracing it?

Notes on Net Zero Investment Workshop

Prepared by members of the Consultative Group

BACKGROUND

The second public workshop took place on Monday, 24 March 2025 and was facilitated by Louise Nadal. Attendees were divided among four tables. In addition to 4 members of the Consultative Group, there was 4 members from the ESG Review group and approximately 30 members of the LSE community (students and staff).

Attendees were given a printed text and questions for discussion. There was a report-back session after each question. The text and questions are reproduced below followed by notes related to each question and some overall questions for further discussion.

TEXT FOR DISCUSSION

Broad Overview

The E in the ESG acronym refers to the risk that environmental factors (especially climate change) pose to a company's business operation, bottom line and financial performance. It also refers to the impact that a company may have on the environment, above all through its greenhouse gas emissions. This workshop's focus is on 'Net Zero' (as defined below) and is embedded in the LSE's current investment policy. However, it also wants to foster a discussion around emerging issues related to environmental factors such as the recent backtracking of fossil fuel companies and financial institutions on their green commitments, carbon emissions from the defence sector, and the growing carbon footprint of technology companies through developing AI. Another issue, which is not presently addressed by the School's ESG investment policy, is the local environmental degradation caused by (inter alia) mining companies, including in pursuit of critical raw materials in the Net Zero transition, which often overlaps with alleged violations of human rights.

Key Concepts

- **Net Zero**: Achieved when CO_2 emissions from human activities are reduced to very low levels and any residual emissions are balanced globally by CO_2 removals over a specified period, also known as carbon neutrality. Net Zero by 2050 is the deadline estimated by the Intergovernmental Panel on Climate Change that is required to meet the aims of the most stringent Paris Agreement goal (1.5°C – see below).
- **Paris Agreement:** A legally binding international treaty on climate change, agreed at COP21 (2015) and currently adopted by 197 countries. It aims to halt the increase in the global average temperature to well below 2°C above pre-industrial levels and pursue efforts to limit this rise to 1.5°C (art 2).
    - To achieve this goal, all parties agree (inter alia) to pursue domestic mitigation measures which they set via Nationally Determined Contributions (art 4). These contributions are reviewed every five years and should represent a progression compared to the previous ones,

increasing their level of ambition. The Paris Agreement builds on the UN Framework Convention on Climate Change, signed in 1992.

- **Transition Pathway Initiative (TPI) Tool:** Designed by the Grantham Institute at LSE, the TPI Tool assesses companies in two ways. First, it assesses companies' Carbon Performance: this involves evaluating the ambition of emissions reduction targets (i.e. their degree of alignment with the Paris Agreement's goals). Second, the Tool assesses companies' Management Quality: this involves evaluating their climate governance processes. The TPI Tool is based on publicly available information and is currently focused on high-emitting sectors for the Carbon Performance assessment. For the Management Quality assessment, a larger sample of over 2,000 companies in a broader range of sectors are assessed.
  - The Carbon Performance assessment of a company scores whether its short-, medium- and long-term emissions reduction targets are aligned with the temperature goals of the Paris Agreement (1.5°C, below 2°C or National Pledges).
  - The Management Quality score of a company across 6 levels ranging from Level 0, (where the company is unaware of climate change) to Level 5 (where the company is undertaking detailed transition planning and implementation).

LSE's ESG Policy and Net Zero

LSE currently considers investment a key pillar of its Sustainability Strategy and commitment to achieve Net Zero. The ESG Policy primarily addresses this through:

- **Partial Exclusions**: "The School will seek to eliminate (on direct investments) and reduce exposure (on indirect investments) not only to the worst polluting fossil fuels of thermal coal and tar sands but also to the worst performers across the whole fossil fuel sector namely companies within oil and gas production."
- **Positive screening:** "The School mandates our investment advisers within the agreed risk and return targets to develop investment opportunities which generate returns from positive ESG Impact such as technologies which will support clean energy, more climate efficient infrastructure projects or sustainable property, etc."
- **Engagement:** "The School maintains pressure on fund managers and is working further to use the annual manager assessment process to encourage positive ESG changes in corporate behaviour not only to reduce emissions and encourage the publication of carbon emissions data in accordance with future international accounting standards, but also to increase diversity, strengthen human rights and create positive impacts on supply chains, promote greater transparency in reporting etc."
- **Use of the TPI tool:** "We assess the degree of alignment by referring to the Grantham Institute's TPI Tool which measures and rates companies' on their Carbon Performance and Management Quality. "We would hope that by July 2027 we will be in a position to review the target filters to all fossil fuels, tobacco and indiscriminate weapons and in addition apply Net Zero targets to the portfolio overall." (This hope was based on the idea that universally accepted standards would emerge into use by then; earlier re-evaluation is possible.)

Questions for Discussion and Feedback

In this session, we have three big questions we'd like you to consider:

- The current ESG Policy primarily focuses on the Net Zero commitment. What other environmental considerations may pose financial risk and contribute to climate change? Conversely, what are potential positive investment opportunities?
- On what basis should LSE choose to divest from or engage with high-emitting or other environmentally harmful sectors and companies?
- Beyond Net Zero, how else could the LSE investment policy take into account climate and other environmental factors?

NOTES FROM DISCUSSION

1. The current ESG Policy primarily focuses on the Net Zero commitment. What other environmental considerations may pose financial risk and contribute to climate change? Conversely, what are potential positive investment opportunities?

- Vagueness in the wording of current ESG Policy around School's responsibility to "maintain pressure" on investment managers to promote positive change.
- Vagueness in the wording around positive screening. A clear criteria for active, positive investment screening with evidence of selected holdings is desired.
- A discussion on the risk/return profile of green investment was raised:
    - From RG members: The small proportion of sustainability-related funds in the current endowment reflects the fact that most ESG-linked funds underperformed traditional peers in the recent few years. Hence the School did not increase holdings to adhere to the 4.5% returns target.
    - Alternative perspectives were raised:
    - Active investment in green assets need not necessarily underperform as there are good ones in the universe.
    - Reference made to Grantham Research Institute's Stranded Assets Report showing how fossil fuel investments are exposed to such future risk
    - Students expressed the School as an education institution should take a leading role in active investment to promote transition opportunities, instead of framing environmental issues barely as risks and respond passively for financial ends.
- "E" beyond Net Zero: other issues are raised to be incorporated and reflected in the investment policy
    - Biodiversity
    - Overlap of environmental/social issues: indigenous communities' surroundings (natural habitat) and welfare
- Emerging Market funds were raised specifically as in whether these investments should be treated with the same rigorousness in investment screening and exclusion.
    - For example, when using TPI ratings to screen oil/gas companies, the EM SMEs tend to be out of the radar.

2. On what basis should LSE choose to divest from or engage with high-emitting or other environmentally harmful sectors and companies?

- RG member has shared the progress of existing fossil fuel divestment and the practical difficulty of selling the remaining fossil fuel assets.
- Dissatisfaction on the transparency and accountability of current engagement process has been raised, shared by many participants.
    - RG member explained that a lack of transparency is an issue but with limited scope for solution as LSE is only indirectly invested in funds,

    appointing asset managers to “hopefully,” “presumably,” do the job of engaging corporates. However, LSE gets to express preferences in the approach of corporate engagement
    - Students have desired LSE to publish more details on LSE’s engagement with asset managers, as well as how they (asset managers) engage corporates for positive change.
    - The “integrity” criteria from LSE’s ethics code was referenced as the basis for enhancing transparency and accountability of engagement.
- Given the, more or less, limited scope for engagement directly under LSE’s control, divestment was also embraced by many participants as an effective way of increasing impact.
    - Although individual’s share-selling in the secondary market has virtually no influence on the company, university divestment alliances has been emphasized as a way of raising collective voices.
- Divestment/engagement being practiced at the same time:
    - Divest from specific sectors eg. fossil fuel
    - Engage with current companies (best in class investment, from TPI rating)
- Related discussions around transparency has been centred around PE investments
    - Given the lack of transparency in fund’s capital flow, such investment should be reduced

3. Beyond Net Zero, how else could the LSE investment policy take into account climate and other environmental factors?

- Innovations in positive investment
    - Issues in environmental justice
    - use of local knowledge/expertise
    - overlap with human rights issues eg. rare earths mining
- Engage student/staff voices
- Students wish to have more direct conversations with the Council to see how they manage the endowments and other operations of the School.
- Need for clearly defined actions, KPIs, and timetables for the Investment section under LSE’s 2030 Sustainability Agenda
    - The current version lacks any clear designated role that the endowment plays and is not rigorous enough
- Reference made to LSE’s past divestment from South Africa’s oil companies in the 1980s, also as a result of student campaigns
- Need clear revenue criteria in creating exclusion standard, and a rigorous one to ensure most of the large oil/gas companies are included
- University alliances eg. the initiative with Cambridge to exclude oil/gas companies in fixed income investment has been endorsed

Notes on Armaments Investment Workshop

Prepared by members of the Consultative Group

BACKGROUND

The second public workshop took place on Monday, 31 March 2025 in LSESU's Venue and was facilitated by Danny Hatem. Attendees were divided among three tables. In addition to 7 members of the Consultative Group, there was 3 members from the ESG Review group and approximately 20 members of the LSE community (students and staff).

Attendees were given a printed text and questions for discussion. There was a report-back session after each question. The text and questions are reproduced below followed by notes related to each questions and some overall questions for further discussion.

TEXT FOR DISCUSSION

The supply chain involved in the arms trade is a common topic to consider within investment policies, and there is a wide spectrum of positions commonly held: from the blanket exclusion of all companies supplying the arms sector; to active investment that stands to profit from future global insecurity.

Perhaps most commonly, discussions on this issue have focused on arms manufacturers that produce controversial and/or indiscriminate weapons. This is currently the case in LSE's current ESG policy, which states "The School will not make direct or as far as possible, indirect investments in companies engaged in indiscriminate arms manufacture." Typical weapons considered indiscriminate are cluster munitions, land mines and chemical weapons.

However, the definition of indiscriminate weapons varies by country. For example, while nuclear weapons are by their nature indiscriminate as argued in the Treaty on the Prohibition of Nuclear Weapons (TPNW), they are actively maintained by several states, including the UK, under the argument of deterrence and proposed scenarios of discriminate use.

Another issue regarding armaments is their potentially unlawful or immoral use, for example, by states violating rules of war like distinction, proportionality, and other humanitarian concerns.

Beyond weapons themselves, defence-related investments can include in dual-use equipment and technologies. These refer to goods that can be used for both civilian and military purposes (e.g. vehicles, electronics, software). For example, while AI has many civilian uses, states can rely on AI technologies for surveillance and even the selection of military targets.

Given the shifting international political and security situation, some argue that the defence sector is necessary and strategic to ensure both national security and economic growth, especially in light of Russia's invasion of Ukraine. This has led some to call for defence companies to be included within ethical investment portfolios.

Questions for Discussion and Feedback

- What considerations should a university endowment entertain regarding investment in arms and the defence sector? How might those compare to those of other asset owners?
- There are many different types of items that one could classify as "arms" or "defence:" nuclear weapons; conventional military weapons; "small arms" like handguns and rifles; and dual-use technologies that cover a wide range of goods and services. Are there meaningful distinctions between these classifications?
- What other distinctions or criteria might be meaningful to this discussion?

NOTES FROM DISCUSSION

1. What considerations should a university endowment entertain regarding investment in arms and the defence sector? How might those compare to those of other asset owners?

- Tension between LSE's investment policy principles
  - On the one hand, It's been repeatedly emphasised that the School (particularly Council)'s consideration is apolitical. If the School believes it should profit from the activities of arms companies in order to fund educational activities, then this should be plainly stated and explained how it is apolitical.
  - On the other hand, by deciding what types of arms and related investments is acceptable is already making political decisions. In fact, through investing in these companies, the fund goes straight into supporting ongoing international wars that influence the global politics. For the arms trade, what comes first: the war or the investments? Tensions in reconciling the distinction between the educational/research purpose of LSE as a university and the purpose of LSE's endowment suggest some core concerns:
    - Purpose of LSE as a university: to educate, research, for the betterment of society. Arms therefore are antithetical to the education ethos of the university.
    - Purpose of LSE's endowment: fiduciary duty towards donors, with the 4.5%+CPI returns target
    - Can we say that the aim of the endowment is different to the aim of a social science university? And further the aims of the defence and arms sector (which in many cases is actually death). If these aims are different from each other, then there is a fundamental contradiction that needs to be resolved.
    - Growth of portfolio should be ethically limited as compared to private commercial actors
    - It seems like students feel a full divestment from arms/weapons industry and the use of the endowment funds to seek investment opportunities from elsewhere in the universe is a good way to reconcile any tension between the two purposes.
- Student/research staff members sharing that LSE's international research opportunities and in-person events has been obstructed by ongoing geopolitical uncertainties, i.e. war is in direct contradiction to the purpose and operations of university.
- Furthermore, the academic research consensus from the fields of socio-economic studies (eg. History, Philosophic, International Relations) is to employ the tools of diplomacy and other peaceful ways of tackling conflict to minimize warfare as much as possible. It is unfortunate to see the School's endowment having to derive profits from arm-and-weapon-related investments to gain fundings for those kinds of socio science research.
- There is also tension between the teaching of decolonisation and investment use. In other words, this sits uneasily with commitments to decolonial ethics,

which call for an interrogation of structural violence, imperial legacies, and whose lives and sovereignties are protected or violated by such investments.

- Counterargument may stress the necessity of armaments for defence of humanity (eg. defend Ukraine). This is often phrased in term of the “real world” in contradistinction to a theoretical discussion of an ideal scenario. Some would argue that such a framing diminishes the “real world” consequences of arms on the societies subject to them and the environment. Regardless, is a university’s endowment responsible for financing arms and weapons or is it the responsibility of national governments to do so? Especially as universities have no decision-making role in the use of arms and weapons.
- Concerns regarding the potential overuse of “indirect investment” as a cheap excuse to the School’s moral obligations on tracing investments
- Given 51% of UK universities already divested fully from arms investment, failure and delays to do so raise reputational risk to LSE.
    - A related discussion on universities that have endowment comparable to the size of LSE that have fully divested from arms (which includes Trinity College of Cambridge, UCL, etc.)
    - However, in discussing this issue, does it inherently assume that LSE has decided to be a follower, or in some sense, lagger, in making decisions that support the advancement of humankind?
    - Or, with the strong financial capability and a good track record on past investment return, can LSE do more on working with asset managers to lead meaningful change? for the betterment of society.
- The specialized nature of arms companies makes the space for engagement to be more or less limited. Given this lack of monitoring/engagement opportunity, it increases the sense of confidence that divestment is a better approach to create impact and achieve the university’s purpose, for the betterment of society.
- Success example of past divestment campaign (eg. South Africa case) after ongoing public pressure, and particularly students’ dissatisfaction.
- Belief among students that the school has an extra responsibility to be ethical and responsible with money, given its past issues (eg. Gaddafi)
- Many students won’t consider donations to the school as alumni if continued arms investment happens, and if they feel as though the school doesn’t listen to them
- Feeling from students that Universities should work together in creating collective power and influencing for the development of more ethical fund portfolios
- Feeling from staff that they feel uncomfortable to benefit from proceeds of arms investment (eg school buildings and research money)
- The Investment Subcommittee’s incentive to continue investment in weapon-related industries with the belief that they will bring exceptional return to the portfolio is inherently assuming that war is inevitable. Beyond this being contrary to the teaching at LSE, there are some financial concerns with this assumption:
    - As a largely unregulated industry (especially related to Net Zero and sustainability) that relies on geopolitical conflict, is the arms sector

actually a stable investment? Is investing in weapons prioritising short-term profit over long-term stability? In doing so, does this prioritisation still align with the endowment's goal of realising 4.5%+ CPI return over the long-term?
    - Further there is a risk given the potential of arms and weapons to be used in human rights violations. This is not only an ethical concern but a reputational once that could damage the School's ability to attract future staff and students.

The second and third questions were discussed together due to time constraint.

2. There are many different types of items that one could classify as "arms" or "defence:" nuclear weapons; conventional military weapons; "small arms" like handguns and rifles; and dual-use technologies that cover a wide range of goods and services. Are there meaningful distinctions between these classifications?

3. What other distinctions or criteria might be meaningful to this discussion?

- Fundamental question – is this distinction meaningful?
    - If ultimately LSE *wishes* to divest from <u>all</u> arms and indiscriminate weapons, the distinction is not meaningful at all.
    - If not, eg. LSE *wishes* to choose a progressive approach to divest from indiscriminate weapons and gradually expand the exclusion criteria to other types of arm-related companies with less clear-cut definition, the distinction can be meaningful.
    - The progressive approach has been endorsed by many students as a way of reconciling practical difficulties in divestment whilst seeking alternative opportunities that meet the fiduciary duty.
    - Current distinctions in the ESG policy regarding direct vs indirect and controversial and indiscriminate are not expansive nor precise enough (eg thinking about fighter jets, land mines, white phosphorus)
    - While ESG policies often permit investment in "discriminate" weapons on the assumption that their use will comply with international humanitarian law (IHL), this compliance cannot be guaranteed in practice. Once weapons are sold, investors and companies have no control over how or where they are used, and even technically discriminate weapons have been deployed in ways that harm civilians and violate IHL principles. Therefore, from a precautionary perspective, divestment from all arms manufacturers—regardless of weapon type—offers a more ethically coherent and risk-averse approach aligned with ESG values.
    - The business of war has changed dramatically over the past half century (more tools and equipment and sophistication). This enlarged the defence sector to include components such as AI for example which is unpredictable and dangerous and supplied by the large tech companies.

  - Do arms companies discriminate between these distinctions? How would their policies change depending on who they sold arms to? These decisions likely come from governments who primarily have geopolitical and economic considerations.
  - Have such distinctions reduced the mass civilian deaths in known wars? eg Iraq, Yemen, Ukraine, Palestine, Sudan?
  - Cannot assume the good use of dual use technologies
- Given that LSE invests a relatively small % of its portfolio in arms companies, belabouring these distinctions makes this issue more complicated than it needs to be. A clear sectoral screening and divestment would solve this issue quickly and cleanly. Ways to make distinction
  - Revenue cutoff: exclude any company if more than x% of revenue is derived from arm and weapon related product/services and/or military/defence sector (dependent on available metrics).
  - For tech companies, this can be, eg. exclude any company if more than x% of revenue is derived from clients in the defence sector and/or exclusion based on the actual revenue (in monetary terms) from the defence sector. This is meaningful for companies that are so large that defence becomes a small part of their own business even when it is objectively massive.
  - This is the industry standard already adopted by asset managers widely, also the type of quantifiable criteria that other university endowment utilise in drafting investment policies.
    - eg. for Cambridge Trinity College, they used the 5% revenue cutoff
  - Given LSE is mostly in mutual funds, there needs to be transparency about the percentage of such companies in these funds and there cannot be a policy where it is acceptable because within the fund the percentage is low. In the end LSE would have still invested a substantial amount of money in the company.
  - Incremental process – Use SIRI to divest from top 100 arms companies
  - “perfect is the enemy of the good”, idea to create a dynamic exclusion list that can be built on
- What is the barrier to divest? Feasibility, or will?
- If we choose to divest, we will need to understand the reasoning behind it to make the case according to the laws outlining the fiduciary duty. Still other universities have managed this so it is unclear why LSE cannot.

Black = original message (14 March 2025)

Red = questions from Mike Ferguson for Consultative Group (14 March 2025)

Green = answers from Consultative Group (20 March 2025)

Dear Oliver and Conor,

thank you for meeting on Monday, I found the meeting very useful and I've been giving your comments and explanations some thought. In working through what I think you are proposing I have some questions which it would be useful if you could take a look at (red font below).

If I understood correctly, what you are proposing is two guiding principles – I recall you said you considered the current policy to be lacking any principle other than the risk/return parameter):

1. That investments held should meet our current and long established risk and return parameters:

Gift Matching and Growth portfolios and School long-term investment:
a) to achieve a long term real rate of return of 4.5% per annum;
b) downside risk tolerance limits were defined as:
– No more than a 25% chance of a 20% fall in assets over a 10 year period;
– No more than a 25% chance of a 50% fall in assets in any single year.

FER portfolio investment:
a) to achieve a long-term real rate of return of 4.5 % per annum and sufficient revenue to distribute £750,000.
b) downside risk tolerance limits were defined as:
– No more than a 25% chance of a 10% decline in assets over a 10 year;
– No more than a 25% chance of a 20% decline in assets in any single year.

2. Investments should be aligned with international law

To break this down here's a suggested approach to considering this over 3 steps:
Step 1 understand how we might align investment policy with international law.
Step 2. How might we operationalise such an approach
Step 3. Test such an approach against the required risk and return parameters.

Step 1.
Currently we exclude direct and minimise indirect investments in a limited group of activities based on the following approach:
For direct investments – that is just corporate bonds - is the business significantly engaged in that excluded business

For indirect investment – does the £ value of our holding in the problematic entity which we own via the indirect vehicle in which we invest exceed a percentage of that investment portfolio.

Portfolio theory tells us that any exclusion from the full range of investments would reduce returns absent other risks
That would be a concern with respect to achieving our risk/return parameters however we can justify this approach on the basis that the excluded/minimised areas of investment carry idiosyncratic risk.

Qu – what exactly is international law – we need a working definition of what we are aligning to, specifically the nature/from of the pronouncements from these bodies that is relevant?

International law is a universal system of rules and principles that regulates the conduct of sovereign states and other international actors, including private corporations in certain respects (see further below).

In brief, the two main sources of international law are (1) *treaties* that are voluntarily entered into by states (e.g. the Paris Agreement, the Convention on Cluster Munitions, dozens of conventions of the Internatinal Labour Organization) and (2) rules of *customary international law* that are binding all states regardless of express consent (e.g. basic human rights, right of peoples to self-determination, prohibition of genocide, prohibition of the use of force).

To identify and interpret these sources, international lawyers typically rely on (3) *judicial decisions*, whether of domestic or international courts and tribunals; and (4) *expert opinions* of the most highly qualified legal academics and international bodies (more on this below).

(For further information, the House of Commons guide to international law may be a useful starting point – if desired, we can provide more detailed literature.)

For our purposes, international law provides a basis for ethical and sustainable investment decisions that are rooted in the rule of law (beyond mere compliance with domestic regulations and without relying on inappropriate political judgements for or against particular issues). To align LSE's portfolio with standards of international law, the School's ambition should be to find a means of translating these sources into clear policies that allow for the School to screen for (and, where appropriate, exclude) any unethical or unsustainable assets.

An example of what we have in mind might help. Think of how Grantham Research Institute's Transition Pathway Initiative has translated the obligations of states under the Paris Agreement – specifically the temperature limits of 2.0 and 1.5 degrees (art 2) – into five levels of corporate alignment with international law.

Another example is the United Nations Guiding Principles on Business and Human Rights (UNGP), which is often used by ESG investors because it helpfully translates international human rights law (which binds states, in the first instance) into standards of corporate conduct.

(There are several other ESG instruments based on international law that are relevant to consider, some of which are listed below in reference to the MSCI ESG Controversies and Global Norms Methodology.)

Qu - How can this be expressed without implying a political judgement is being made – this is key given the direction from Council? For example, how we deal with the issue of Israel?

If a decision is made to align the School's portfolio with international law, it is necessarily based on legal sources (as outlined above). The beauty of this is that it is precisely not political (although we do appreciate that international law may be 'politicised' by those who are violating its rules and, of course, any violations are bound to be condemned by a range of voices).

To take the issue of Israel, whereas some advocates would have universities divest from all Israeli companies in a blanket manner, the legal position would be more nuanced and specific.

Here is not the place to fully explore the point. But it suffices to note, for example, that the International Court of Justice held in July 2024 that states are under an international obligation 'to take steps to prevent ... investment relations that assist in the maintenance of the illegal situation created by Israel in the Occupied Palestinian Territory'; whilst the UK government has suspended arms export licences to Israel where there is a clear risk of serious violations of international humanitarian law (which regulates, inter alia, protection of civilians during armed conflict) and has imposed sanctions on Russian individuals and entities in response to the unlawful use of force against Ukraine and on Israeli settlers in the unlawfully occupied West Bank.

All these examples highlight how the position under international law is based on the violation of rules (or clear risk thereof), rather than political judgements.

Of course, responsible investors would still have to form judgements how best to align their portfolios with international law. For example, to avoid the fast-changing character of armed conflicts, as well as the uneven compliance of different states with their international obligations (including the US, where a lot of the weapons industry is listed), many ESG advocates would recommend complete exclusion of arms companies.

Similarly, the recent back-pedalling of energy majors away from their previous commitments to align with the Paris Agreement may mean that complete exclusion of fossil fuel companies is the most effective way to implement an ethical and sustainable investment policy.

Companies are not directly subject to international law.

This statement is understandable given the origins of international law as the regulation of exclusively state conduct, but it is no longer strictly correct.

To take just one example: in the 2020 case of *Nevsun v Araya*, the Canadian Supreme Court accepted that a mining company may be liable for breaches of customary international law committed in other countries, specifically breaches of human rights and crimes against humanity in Eritrea, because Canadian law (like English law) automatically incorporates all rules of customary international law into its domestic common law (the case then settled).

Countries are subject via pronouncements of bodies that do or do not recognise. Qu – do we have a list of such bodies?

Countries are bound by all treaty obligations they have voluntarily entered and by all rules of customary international law (as explained above).

They may also consent to the jurisdiction of particular bodies to settle disputes, such as the International Court of Justice (disputes between states) or the European Court of Human Rights (disputes between individuals and states). Even if the UK, for example, is not party to a particular dispute, the judicial decisions and advisory opinions reached by international courts and tribunals (or, indeed, domestic courts dealing with international law) are the authoritative means of determining the UK's international obligations in general terms (and, by extension, the lawful conduct expected of private business).

Then we have expert bodies, such as the International Law Commission, the United Nations Human Rights Council, and the various Special Rapporteurs of the United Nations, whose opinions are likewise taken as authoritative (albeit less authoritative than judicial decisions) in identifying and interpreting rules of international law and determining whether or not they have been violated.

So, at the very least, compliance with the judicial decisions of the International Court of Justice and UK courts, plus the independent expert reports of United Nations bodies, would provide a reliable guide to whether or not a state and related companies are engaging in violations of international law.

Countries will or will not adopt these rulings via their own laws. Companies then operate in accordance with the local laws. Qu. Would it be correct to assume the alignment proposed would leapfrog national law adoption – ie a company operating in a country which was in breach of an international law pronouncement could be subject to exclusion from our investment even if that country had not adopted the ruling into its national law?

There is no question of 'leapfrogging' domestic law.

As explained above, international law is binding on states regardless of whether they have incorporated their specific treaty or customary obligations into domestic legislation (often they don't need to). But it is a cardinal principle of international law that strict compliance with domestic law is no justification for a violation of international law.

So, the compliance of a company with domestic law in a particular state that is flouting its obligations under customary or treaty law, or the relevant ruling of an international court, would not render that company's conduct in compliance with international law.

Now, this is not to say that if the UK parliament passed legislation which, for example, explicitly prohibited divestment from this or that product/service, then that act of parliamentary sovereignty would not bind investment decision-making within the UK. But the framing of such legislation would be difficult (would parliament really mandate investments in the private sector, contra the fiduciary's judgement?) and is inherently unlikely in the UK climate.

The very point of the proposal to align the School's portfolio with international law is to set minimum standards of ethical and sustainable investment, even if a company can get away with breaching those standards in particular countries.

Qu, likewise, where the UK has not adopted that 'law' would the whole company be tainted?

See the previous point on domestic parliamentary sovereignty.

The UK is bound by all the major human rights and environmental treaties and all the customary rules on, for example, humanitarian law, use of force, genocide, etc.

This doesn't depend on the UK having adopted international law into its domestic legislation, though sometimes it does (e.g., Genocide Act 1969, Human Rights Act 1998). Regardless of whether a relevant rule of international law is incorporated in a specific statute, the English courts routinely refer to unincorporated treaties and customary international law in developing the common law.

In any event, whether or not a company's conduct is engaged or complicit in violations of international law can typically be assessed by direct reference to the applicable rule of international law (without needing to refer to domestic regulations).

We conclude from all of this that there is no real risk of contradiction between UK and international law, including the sources identified above.

A different issue, however, is whether the British government has deemed it necessary to sanction specific individuals or entities in order to perform the UK's international obligations or in response to violations by other states. It may be that, applying an investment policy aligned with international law, LSE chooses to exclude companies that are not yet subject to targeted sanctions by the UK. And that would be fine.

Step 2. Operationalisation
There are several issues that need to be addressed. Qu – is the approach an exclusionary or an inclusionary approach – ie should we be seeking to exclude companies or change the behaviour of these companies? Put another way does international law inform or determine our investments?

Because the LSE has no means of engaging with companies that are breaching international law (due to its lack of direct investments), excluding those companies would appear the most effective way to align the portfolio with international law.

If the School moved towards direct investments, then it could use its voice at shareholder AGMs etc. to change the behaviour of those companies.

Qu Where do we get a is the list of the companies we need to be focussing on? There are some more detailed questions that can be put to one side for now, including.....How does that list get updated? How often do we review investment against that list and consequently how often might we take action? Who decides that action is taken? What is the cost of this review cycle compared with alternative review cycles?

It is possible to identify companies regarding specific rules of international law.

For example, the Grantham Institute's TPI tool helps us to identify the alignment of corporate behaviour with the temperature limits of the Paris Agreement and has generated a growing list of companies across several sectors.

Similarly, in regard to the unlawful Israeli occupation of Palestine, the United Nations Office of the High Commissioner for Human Rights published in June 2023 a database of 'all business enterprises involved in the activities detailed in paragraph 96 of the report of the independent international factfinding mission to investigate the implications of the Israeli settlements on the civil, political, economic, social and cultural rights of the Palestinian people throughout the Occupied Palestinian Territory, including East Jerusalem', totalling 97 companies (this database is presently being updated).

(There could be scope for LSE to create its own list of companies to exclude based on defined parameters that could be passed to fund managers, bringing together these issue-specific lists.)

Alongside breaches of specific rules, our research has identified MSCI's November 2024 report on its ESG Controversies and Global Norms Methodology as a promising way to align investments with international law across the board.

Among other things, this methodology screens companies (using a flag system – discussed below) 'based on their involvement in ESG Controversies that potentially conflict with the recommendations defined by each global norm or convention', including the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the Ten Principles of the United Nations

Global Compact (UNGC), the International Labour Organization's (ILO) fundamental conventions and ILO Declaration on Fundamental Principles and Rights at Work, and the United Nations Guiding Principles on Business and Human Rights (UNGP).

We have a contact at MSCI (which is a world leader in index funds and ESG research) who may be able to help LSE reorganise its investments in accordance with the ESG Controversies and Global Norms Methodology.

There are fundamental differences between direct and indirect investments. Qu. If we are pursuing an exclusionary policy, the paper posits a fundamentalist approach to exposure – namely any exposure of the company even if small in terms of the company and the portfolio has the same consequence, this needs confirming as it would have a significant impact on operationalisation.

If LSE decided to align its portfolio with international law, then the School would need to select funds for direct and indirect investment that have zero exposure to companies engaged or complicit in violations of international law. The School should thus be obtaining expert advice as to how this can be achieved in line with its risk and return targets.

Qu. What would the exposure measure be – revenue, profit, some other factor?

At this stage in the ESG review process, the LSE needs to seek guidance from independent ethical investment advisers as to which options are available and practicable in light of the School's portfolio and capacity – which is why a brief should be prepared asap (based on our internal discussions) to solicit that external advice.

A possible option, if the School explored the MSCI ESG Controversies and Global Norms Methodology mentioned above, is the following company-level flag system, which assesses companies according to their involvement in Very Severe, Severe, Moderate, and Minor controversies (copied from the November 2024 report):

- A Red Flag indicates that a company is directly involved in one or more Very Severe Ongoing controversies.
- An Orange Flag indicates that a company has either:
  - Settled most but not all of the stakeholders' concerns related to its direct involvement in one or more Very Severe controversies;
  - Continues to be indirectly involved in one or more Very Severe controversies; or
  - Is directly involved in one or more Severe controversies.
- A Yellow Flag indicates that a company either:
  - Has been implicated in one or more Concluded Very Severe or Severe controversies;
  - Has settled most or all of the stakeholders' concerns related to its alleged direct involvement in one or more Severe controversies or indirect involvement in one or more Very Severe or Severe controversies; or
  - Continues to be indirectly involved in one or more Severe controversies or directly involved in one or more Moderate controversies.

- A Green Flag indicates that a company either:
    - Has fully or partially settled one or more Moderate controversies in which it was involved;
    - Is indirectly implicated in one or more Ongoing Moderate controversies;
    - Is either directly or indirectly implicated in one or more Ongoing, Partially Concluded or Concluded Minor controversies; or
    - Has not been implicated in any controversy

The School might decide, for example, that it wishes to screen direct and indirect investments in companies for some but not all flags.

(A final caveat: this MSCI methodology has been identified via our inexpert desk research as a promising starting point for the LSE to explore the available options of aligning its endowment with international law. But it may not be the appropriate end point, which is why the School would need to obtain more information from ethical investment advisers about the flag-system methodology and alternative options in the market.)

Once we have clarified the points above, we can work on how this might impact returns, and how it would work with direct and indirect investments – step 3.

Best wishes

Mike

ESG Consultative Group
Working Paper 2
April 2025

Investment Policies of UK Universities: Exclusions and Fiduciary Duty

ESG Consultative Group

The ESG Consultative Group is a group of volunteers, formed in October 2024, comprising 3 students, 3 professional services staff, and 3 academic staff.

CONTENTS

I. Purpose of this working paper

LSE's current ESG policy states that one of its principles is to “ensure that the School’s ESG policies can be reconciled with the Endowment’s ‘Trustee’ fiduciary duty to maximise investment returns”.[1] That is entirely appropriate, given the School’s legal status under the Companies Act 2006 and Charities Act 2011 and the responsibilities of Council members as fiduciaries. In concrete terms, the School has translated its fiduciary duty as a growth target of 4.5%+CPI. This target has provided an outer limit for the Consultative Group’s previous proposals as to how the School may update its investment policy.

However, for many years, the Council’s fiduciary duty has been routinely invoked in dismissing any suggestion that LSE should constrain its universe of investible assets by, for example, fully divesting from arms or fossil fuel companies. Such appeals to the importance of fiduciary duty often carry the implication that students and staff do not understand the applicable legal framework for LSE’s investment decision-making. Yet, throughout the present ESG review process, it has become increasingly clear that those who still appeal to the fiduciary duty have failed to keep pace with judicial clarifications of the applicable law, which are reflected in the most recent guidance of the Charity Commission.

It is particularly troubling to have heard some participants in the review process suggest that the endowment “isn’t really the School’s money, it's the donor’s money”, and should be invested accordingly. Of course, Council may consider the perceived interests of the donor community in developing the School’s investment policy, as not to chill future donations. But this does not mean that perceived donor interests can be allowed to trump other interests in developing (what the English High Court has called) “a reasonable and proportionate investment policy” that balances a wider range of “non-financial considerations”. Donations are gifts and become the responsibility of the charity.

To prevent some of these mistakes being repeated in the critical final stages of the ESG review process, this working paper briefly recalls the relationship between the fiduciary duty and possible exclusions in LSE’s investment policy by first summarising the current applicable legal guidance for charities and companies in the light of judicial clarifications. It then presents the situation at other UK institutions that have exclusions in their investment policy related to climate change and armaments.

Given the existence of other higher education institutions that (1) employ exclusions related to climate change and armaments; (2) remain in good standing with the Charity Commission; and (3) achieve their financial goals, we hope there is greater clarity in community discussions over the future of LSE’s investment policy. We hope this will enable granular analysis and progress on LSE’s investment policy.

[1] See *LSE ESG Policy* (2022).

II. Non-financial considerations in investment policies

Recent judicial decisions and government guidance have affirmed that charities may have non-financial considerations when making decisions on their investment policy.

We are not the first members of the LSE community to draw the School's attention to these important clarifications of the applicable legal framework. As explained in a September 2024 letter sent to Council from LSE staff:

> In a recent High Court decision, Michael Green J. held that "in considering the financial effect of making or excluding certain investments, the trustees can take into account the risk of losing support from donors and damage to the reputation of the charity generally and in particular among its beneficiaries".[2] The Court accepted then that non-financial criteria could be taken into consideration when trustees exercise their investment powers. The government has since published guidance confirming this is the new legal position and explicitly acknowledges charities may pursue a financial strategy that avoids companies whose practices are contrary to "climate, human rights, sustainability, community impact and board accountability" or that "could reduce support for your charity or harm its reputation, particularly amongst its supporters or beneficiaries".[3]

The letter goes on to consider LSE's fiduciary duty, given its status as a private company limited by guarantee, in addition to being a charity:

> As the School is also a private company limited by guarantee, it is also regulated by the Companies Act 2006.[4] This act does not require LSE's directors to think solely about financial return. Section 172 instead obliges directors to "promote the success of the company for the benefit of its members as a whole." In assessing success, directors must have regard for the "interests of the company's employees", its "reputation for high standards of business conduct", and its "operations on the community and the environment." More generally, as "company directors, charity trustees and members of the company as well as governors of a higher education institution," members of Council are expected to think more broadly about the School than its finances. Council members are obligated to take into account the School's mission, reputation, and values alongside recommendations from its financial advisers on how to achieve acceptable rates of return when considering what is in the School's best interests.

For completeness, we set out in full the helpful 10-point summary of "the law in relation to charity trustees taking into account non-financial considerations when exercising their powers of investment" at para. 78 of Justice Green's 2020 judgment in *Butler-Sloss v Charity Commission*, which may be applied *mutatis mutandis* to LSE's investment policy (particularly the points in bold):

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[2] See *Susan Butler-Sloss & Others v Charity Commission* (2022).

[3] See *Investing Charity Money: A Guide for Trustees* (2023).

[4] See UK *Companies Act* (2006).

1. Trustees' powers of investment derive from the trust deeds or governing instruments (if any) and the Trustee Act 2000.
2. Charity trustees' primary and overarching duty is to further the purposes of the trust. The power to invest must therefore be exercised to further the charitable purposes.
3. That is normally achieved by maximising the financial returns on the investments that are made; the standard investment criteria set out in s.4 of the Trustee Act 2000 requires trustees to consider the suitability of the investment and the need for diversification; applying those criteria and taking appropriate advice is so as to produce the best financial return at an appropriate level of risk for the benefit of the charity and its purposes.
4. Social investments or impact or programme-related investments are made using separate powers than the pure power of investment.
5. Where specific investments are prohibited from being made by the trustees under the trust deed or governing instrument, they cannot be made.
6. **But where trustees are of the reasonable view that particular investments or classes of investments potentially conflict with the charitable purposes, the trustees have a discretion as to whether to exclude such investments and they should exercise that discretion by reasonably balancing all relevant factors including, in particular, the likelihood and seriousness of the potential conflict and the likelihood and seriousness of any potential financial effect from the exclusion of such investments.**
7. **In considering the financial effect of making or excluding certain investments, the trustees can take into account the risk of losing support from donors and damage to the reputation of the charity generally and in particular among its beneficiaries.**
8. **However, trustees need to be careful in relation to making decisions as to investments on purely moral grounds, recognising that among the charity's supporters and beneficiaries there may be differing legitimate moral views on certain issues.**
9. **Essentially, trustees are required to act honestly, reasonably (with all due care and skill) and responsibly in formulating an appropriate investment policy for the charity that is in the best interests of the charity and its purposes. Where there are difficult decisions to be made involving potential conflicts or reputational damage, the trustees need to exercise good judgment by balancing all relevant factors in particular the extent of the potential conflict against the risk of financial detriment.**
10. **If that balancing exercise is properly done and a reasonable and proportionate investment policy is thereby adopted, the trustees have complied with their legal duties in such respect and cannot be criticised, even if the court or other trustees might have come to a different conclusion.**

In light of this judgment, the Charity Commission clarified its online guidance (last updated 1 August 2023) of ‘example approaches’ to ‘financial investments’ as follows (with the most relevant points in bold):

> When deciding your charity's investment approach, you must comply with your general and specific trustee duties set out above. This includes considering all the matters that are relevant to your charity's circumstances and your decisions about your investment approach. Provided you do this, the investment approach you decide on may involve one or more of the approaches from the following (non-exhaustive) list:
>
> - aiming only for the best financial return you can achieve, within the level of risk that you have decided is acceptable for your charity
> - alongside the financial return you are aiming for, avoiding investments that conflict with your charity's purposes. For example, a health charity may decide to avoid investment in companies that mainly produce alcohol, tobacco, or highly processed food; or an environmental charity deciding to avoid investment in fossil fuels
> - **alongside the financial return you are aiming for, avoiding investments that could reduce support for your charity or harm its reputation, particularly amongst its supporters or beneficiaries. For example, a charity may decide to avoid investment in fossil fuels where the trustees can show that this would be in its best interests by avoiding damage to its reputation or fundraising. Investments in this category are sometimes described as bringing an "indirect" conflict with a charity's purposes**
> - **alongside the financial return you are aiming for, avoiding or making investments in companies because of their practice on environmental, social and governance (ESG) factors such as: climate, human rights, sustainability, community impact and board accountability. Taking this approach could be in your charity's best interests if it could protect or enhance the financial value of your investments or returns over time, or because it will support delivery of your charity's purposes more directly**
> - **alongside the financial return you are aiming for, using your shareholder vote, or other opportunities that come with your investment, to influence practice at companies that your charity is invested in. As with the example above, taking this approach could be in your charity's best interests because it could protect or enhance the financial value of your investments or returns over time, or because it will support delivery of your charity's purposes more directly**

Plainly the legal framework leaves a wide margin of discretion for higher education institutions like the LSE to decide that certain investments, such as fossil fuels or arms, should be wholly excluded from its portfolio. It is thus unsurprising to find so many comparable institutions have already made such exclusions as part of their ESG investment policies.

III. Exclusions at UK Universities

Multiple peer universities have implemented stronger exclusions in their investment policies than LSE regarding concerns for climate change, armaments, and human rights. This is normally through exclusions of companies involved in fossil fuel extraction and arms and weapons manufacture.

Below, we list examples of UK-based universities that have such investment exclusions. These universities have endowment sizes and rates of return comparable to LSE.[5] The sample is representative of a range of types of exclusions and the language used to define them.

For each case, we list the name of the institution, the size of the endowment, the target rate of return (if available), and the relevant text in the investment policy regarding exclusions related to climate change and armaments. Some universities (eg UCL) employ ethical investment managers who already have certain exclusions in place regarding these two issues. In these cases, the full extent of the exclusions may not be fully explicated in the institution's investment policy. Other universities have divested from fossil fuel companies without updating their investment policy.

University of Newcastle £98,460,587[6]

Target Rate of Return: No publicly available information.

Fossil Fuel Companies	Arms Companies
"The University is committed to investing in a socially and environmentally responsible manner. It does not permit investment in... • companies making revenue from extraction and production of fossil fuels."[7]	"The University is committed to investing in a socially and environmentally responsible manner. It does not permit investment in... • companies manufacturing armaments."[8]

[5] Similar to LSE, in addition to an endowment, these universities may also hold investments of general reserves and fixed-income bonds. For simplicity, the number presented is the endowment, which is available in Annual Reports. For LSE, the endowment was £258.7 million as of July 2024 (according to a presentation to the CG by RG on 12 November 2024).
[6] See *Newcastle University Endowment Investments as at 31 July 2024*.
[7] See University of Newcastle's *Socially Responsible Investment Policy* (2023).
[8] See University of Newcastle's *Socially Responsible Investment Policy* (2023).

University of Reading £111,433,000[9]

Target Rate of Return: No publicly available information.

Fossil Fuel Companies	Arms Companies
"The University recognises the climate emergency as a key challenge facing society and the students of the future. As such the University seeks to align with the Paris Agreement on climate change, encouraging our fund managers to reduce the carbon emissions of the investments, and advancing a just transition through engagement and investment in solutions (e.g. renewable energy and infrastructure). The screening policy excludes fossil fuels and has been updated to include the largest financers of fossil fuel activities based on the Banking on Climate Chaos (BOCC) dataset. Any future investments in energy assets will be in renewable energy, low carbon energy, community renewable energy, or renewable energy projects on campus."[10]	"The University seeks to avoid harm and has explicit exclusionary screens as well as ensuring ESG factors are integrated into all investment decisions. The University will screen out all corporations complicit in the violation of international law. The current exclusions and tolerances agreed by the Investments and Development Committee and applied by the investment manager cover weaponry and armaments, pornography, tobacco, gambling, high interest rate lending, alcohol, oil and gas (extraction, production, refining and financing), tar sands and thermal coal, and non-medical animal testing."[11]

[9] See *University of Reading Annual Report and Financial Statements 2023/24*.
[10] See University of Reading's *Investment Policy* (2024).
[11] See University of Reading's *Investment Policy* (2024).

St. Catherine's College, University of Cambridge £121,000,000[12]

Target Rate of Return: CPI + 4.25%[13]

Fossil Fuel Companies	Arms Companies
"The College does not and will not hold any direct investments in fossil fuel, arms, tobacco, child labour or gambling industries.... The College currently has no plans to make new private equity investments, and is running down its current exposure in this asset class over the next 2-5 years. Private equity is a source of new capital for companies, and the College will ensure that it does not in the future invest in funds that focus on companies whose activities run counter to the environmental and social values of the College.... The College expects its bank to align with the College's social and environmental policies. The College will engage with its bank – currently Barclays – on fossil fuel lending in particular, and will aim to switch providers if the bank's activities continue to run counter to the College's values."[14]	"The College does not and will not hold any direct investments in fossil fuel, arms, tobacco, child labour or gambling industries."[15]

[12] See *St Catherine's College, Cambridge Report of the Trustees and Financial Statements for the Year Ended 30 June 2024*.
[13] This is calculated as CPI + 0.5% + Spending Rate (currently 3.75%). *See* *St Catharine's College Investment Policy* (2024).
[14] *See* *St Catharine's College Investment Policy* (2024).
[15] *See* *St Catharine's College Investment Policy* (2024).

University of Birmingham £155,777,000[16]

Target Rate of Return: No publicly available information.

Fossil Fuel Companies	Arms Companies
"The University's OCIO is obligated to invest the University's investment funds in line with the following investment exclusion criteria: • Oil & Mining Companies: Companies whose revenues derived from Thermal Coal, Oil Shale & Tar Sands production activities (considered the most polluting) exceed 5% of their global revenues."[17]	"The University's OCIO is obligated to invest the University's investment funds in line with the following investment exclusion criteria... • Armaments: - Landmines and cluster munitions: these are prohibited under international treaty and as such are to be excluded from investment for every portfolio; - Civilian firearms, both the production and retail of civilian firearms; - Companies where revenues exceed 10% of revenues with activities connected to weapons systems, including components and services designed for weapons use products or services designed for weapons use; - Companies manufacturing whole weapon systems weapons, cluster munitions and anti-personnel landmines."[18]

University College London £174,800,000[19]

Target Rate of Return: No publicly available information.

Fossil Fuel Companies	Arms Companies
"The University has a particular concern in relation to fossil fuels, and will not invest in companies involved in fossil fuel extraction or production."[20]	"Some of the ethical, social, environmental and governance issues which it will focus on include... • Armament sales to military regimes • Human rights violations"[21]

[16] See *University of Birmingham Annual Reports and Accounts 2023/24*.
[17] See University of Birmingham's *Responsible Investment Policy* (2025).
[18] See University of Birmingham's *Responsible Investment Policy* (2025).
[19] See *University College London Annual Report and Financial Statements for the year ended 31 July 2024*.
[20] See UCL's *Policy for Socially Responsible Investment* (2020).
[21] See UCL's *Policy for Socially Responsible Investment* (2020).

King’s College London £325,000,000[22]

Target Rate of Return: No publicly available information.

Fossil Fuel Companies	Arms Companies
“King’s will not knowingly… • Hold any direct or indirect (via pooled funds) investments in companies engaged in the extraction or refinement of fossil fuels, subject to there being no significant adverse impact on benchmark risks and financial returns used to support academic activity and monitor exposure regularly.”[23]	“King’s will not knowingly… • Hold any direct or indirect (via pooled funds) investments in companies deemed to be engaged in controversial weapons. In this context, controversial weapons are defined as cluster bombs, land mines, depleted uranium weapons, chemical and biological weapons, blinding laser weapons, non-detectable fragments and incendiary weapons (white phosphorus). Exposure to any such investments will be monitored regularly.”[24]

[22] See *King’s College London Financial Statements for the year ending 31 July 2024*.
[23] See *King’s College London Endowment Assets Ethical Investment Policy* (2024).
[24] See *King’s College London Endowment Assets Ethical Investment Policy* (2024).

The University of Edinburgh £580,000,000[25]

Target Rate of Return: No publicly available information.

Fossil Fuel Companies	Arms Companies
“**Fossil Fuels** The University set up an evidence based review group whose conclusions were considered by Court in May 2015. This concluded that the University should seek means through investments to support the transition from a high carbon to a low carbon society, as long as actions taken are consistent with other University objectives and values. The consequent operationalisation of this conclusion has been divestment from three companies engaged in the most polluting activity (Coal and Tar Sands). The recommendations of the group, endorsed by Court, are being progressed through the Investment Committee. These are as follows: • Assess stranded assets argument (this issue is being progressed with the Committee’s appointed investment advisor); • Identify and replace (to low or zero carbon investments). This option is being progressed both with appointed individual fund managers and the Committee’s investment advisor; • Report, benchmark and improve. Consideration is being given to how best to progress this in an effective and proportionate manner utilising the expertise of academics within the University: • Divest from highest carbon emitting fuels where alternatives exist. This recommendation resulted in an agreed methodology for targeting investments in companies engaged in the highest polluting activities (coal and tar sands), followed by divestment from three companies and engagement letters to remaining investments	“**Armaments statement** Court has endorsed the identification of controversial armaments as an area in which the University should not invest, and approved the policy based on the exclusion of controversial weapons. The Sustainalytics definition of controversial weapons is used: anti-personnel mines, biological weapons, chemical weapons, cluster weapons, depleted uranium ammunition, nuclear weapons and white phosphorus weapons.”[28]

[25] See *The University of Edinburgh Annual Report and Accounts Annual Report and Accounts for the Year to 31 July 2024*.
[28] See The University of Edinburgh’s *Responsible Investment Policy Statement* (2016).

operating in the Fossil Fuel sector. Divestment was achieved before the close of the 2014/15 financial year, and annual exclusion lists are provided to the University's fund manager to ensure continued compliance with Court approved policy."[26]

"Following a further review in 2018, the University announced plans to complete divestment from direct and pooled investments in fossil fuels. The University completed full divestment from fossil fuels in 2021."[27]

[26] See The University of Edinburgh's *Responsible Investment Policy Statement* (2016). The University of Edinburgh is currently reviewing its investment policy regarding armaments and human rights. See *An update on the Responsible Investment Policy Review*.
[27] See *Responsible Investment*.

Imperial College London £602,823,000[29]

Target Rate of Return: CPI+5% over a rolling 10-year period.[30]

Fossil Fuel Companies	Arms Companies
"The College will continue to invest in fossil fuels companies that demonstrate they are actively moving towards meeting Paris Agreement targets. The College will influence the behaviour of these companies by the following means: • Our educational programmes • Our research and collaborations • Our influence as active shareholders • Our influence as a world-leading university The Endowment Board will report on the progress the College and other investors are making in changing company behaviour, by measuring progress against the Paris Agreement targets. The College believes that, on the current evidence, thermal coal and tar sand extraction do not play a part in achieving the Paris Agreement targets and will therefore instruct the Endowment Board to divest from direct and indirect investments in companies engaged in these activities that are unable to make progress towards Paris Agreement targets. Current exposures to fossil fuels are monitored on a quarterly basis, and were 0% at 31 July 2024, aligning with the university's responsible investment objectives."[31] "Our deepest means of engagement to support ESG and the transition towards a more sustainable and lower-carbon future is through our research and education partnerships.	"The College, including the Endowment will not invest (directly or indirectly) in companies which manufacture arms that are illegal under Arms Control Treaties to which the UK is a signatory."[33]

[29] See *Imperial College Endowment*.
[30] See Imperial College's *Investment Strategy*.
[31] See Imperial College's *Socially Responsible Investment Policy*.
[33] See Imperial College's *Socially Responsible Investment Policy*.

Imperial College London has therefore designed a framework, the Imperial Zero Index (IZI), to assess annually how its energy industry research collaborators are performing in their commitment, strategy, and operational efforts towards net zero. Imperial expects to disengage from academic and research collaborations, as well as investments, with energy industry companies that score poorly against its criteria. IZI is currently being rolled out and will include publishing its methodology and defined scoring standards for all stakeholders."[32]	

[32] See Imperial College's *Socially Responsible Investment Policy*.

ESG Consultative Group
Working Paper 3
May 2025

Report on ESG Policy Review Submissions

ESG Consultative Group

The ESG Consultative Group is a group of volunteers, formed in October 2024, comprising 3 students, 3 professional services staff, and 3 academic staff.

CONTENTS

I. Background

During the 2024-25 academic year, LSE has embarked on a review of its ESG policy. As part of this process, the LSE community was invited to make submissions through an online portal to contribute to this process. This portal was open from approximately mid-November 2024 through 4 April 2025. The Consultative Group (CG) was asked to provide a summary of these submissions for the Review Group (RG).

This report provides an overview and summary of the submissions, but we strongly encourage the RG to go through the original submissions in parallel with reviewing this report. It begins with a description of the submissions, including any attachments included. Then it describes the contents of the submissions through the identification of recurring topics. It concludes with a summary of how the submissions should inform the LSE ESG Review process.

II. Description of Submissions

Each submission included a title, cover note of maximum 300 words, and an option to include attachments. It was also indicated if the submission was on behalf of an individual or a group and from which category of LSE membership (Academic staff, Professional services staff, Research staff, Undergraduate student, Postgraduate taught student, Postgraduate research student).

There was a total of 39 submissions. After reading the submissions, we concluded that four of them were unrelated to LSE's ESG policy and have not included them in our analysis.

Of the 35 relevant submissions:

- 12 submissions were from Academic staff
- 11 submissions were from Postgraduate taught students
- 5 submissions were from Professional services staff
- 3 submissions were from Postgraduate research students
- 2 submissions were from Research staff
- 2 submissions were from Undergraduate students

One submission was submitted on behalf of a group.

Most submissions utilised the cover note section of the submission form to convey their views. Seven submissions included attachments which were a mix of external reports and the submitter's view in an extended form.

List of External Sources Attached to Submissions

Almost half of the submissions included attachments and/or links to reports, resources, and news articles in the public domain. They are listed below:

Reports and Resources

Source	Year	Title and Link
Al-Haq	2024	Touring Stolen Land: How Airbnb Fuels Illegal Settlements in the Occupied West Bank
American Friends Service Committee	2021	American Friends Service Committee Investment Policy Statement: Approved and Adopted by the Board June 2021
Amnesty International	2024	IIsrael and the Occupied Palestinian Territory
Amnesty International	2024	The involvement of business enterprises
Amnesty International	2020	Airbnb listing: company is 'deeply compromised' by Israeli settlement properties
Britain Palestine Project	2025	Written evidence submitted to the House of Commons Foreign Affairs Committee by the Balfour Project Charity (IPC0039)
Financial Exclusions Tracker	2024	Financial Exclusions Tracker
Friends of the Earth	2018	Local government pensions: fossil fuel divestment
Human Rights Watch	2025	NGOs, Trade Unions, Call on EU to Ban Trade with Israel's Illegal Settlements
International Court of Justice	2024	Legal Consequences arising from the Policies and Practices of Israel in the Occupied Palestinian Territory, including East Jerusalem
SOMO (Centre for Research on Multinational Corporations)	2025	Additional evidence filed against Booking.com for profiting from illegal settlements
UK Government	2024	New UK sanctions target illegal outposts and organisations supporting extremist Israeli settlers in the West Bank
UK Parliament	2024	Statement from the Secretary of State for Business and Trade Statement made on 2 September 2024

News Articles

Source	Year	Title and Link
BBC	2024	Airbnb sued for pulling West Bank settlements
Financial Times	2025	UK pension funds stand by defence exclusion in 'ethical' funds
The Guardian	2025	Revealed: Microsoft deepened ties with Israeli military to provide tech support during Gaza war
The Guardian	2025	Seized, settled, let: how Airbnb and Booking.com help Israelis make money from stolen Palestinian land
The Guardian	2025	Gaza internal checkpoint to be staffed by US private armed contractors
The Guardian	2024	Israel mulls using private security contractors to deliver aid to Gaza
The Guardian	2017	UN sends warning letters to firms that trade in occupied Palestinian territories

III. Review of Main Topics

After reviewing the content of all submissions, including their attachments and external links, we ascertained several recurring topics. These are listed below in an approximate order of how significant they featured in the submissions.[1] For each topic, we provide a summary of its main points and an illustrative quote if relevant.

Human Rights and International Law

Approximately 25 submissions referenced international law, international humanitarian law, and human rights as a key consideration of the LSE investment policy. About half of this number reference both human rights and international law (for this reason we group them as one topic). Many of these submissions link this position with LSE's Ethics Code.

Example Submission Quote:

> "ESG standards must align with our Ethics Code...Our ESG criteria, therefore, should not be restricted to environment, fossil fuels and arms industries, but

[1] We employed a simplified discourse analysis on the submissions and endeavoured to be as representative as we could given time and material constraints.

> must include explicit and carefully developed stipulations as to ethics, human rights, and international law. This is a matter of concern to the whole LSE community during a period when human rights and international law are under acute stress, contrary to our values."

Divestment and Exclusions

Approximately 15 submissions made explicit reference to divestment and exclusions as a component of a future investment policy. All but one of these voiced support for more exclusions, related to human rights, international law, the climate, arms companies, and companies supporting the occupation of the Palestinian Territories.

Example Submission Quotes:

> "I personally favour divestment, but at a minimum the LSE should be very clear-eyed when investing in companies associated with human rights violations, harm to the planet, etc., about what it aims to achieve with such investments and how this aligns with our mission as an institution."

> "I would like to offer a brief perspective on the importance of maximising yield on the endowment, while protecting its underlying value, in order to sustain a funding stream for scholarships, teaching, research and contingency...To change course would be to undermine the LSE's mission and effect in the world. The LSE endowment is not an ESG investment fund. This is not the LSE's mission: and it would be a deeply flawed moral choice to further alter course to condition LSE investments and therefore potential returns."

Palestine and Israel

Approximately 14 submissions referenced the ongoing war in Gaza and the Israeli occupation of the Palestinian Territories. While LSE Council has characterised discussions on this issue as 'political' and outside its scope, we believe it is important to note the significant submissions on this topic. The majority of these submissions position this issue as an exemplar in relation to considerations of human rights, international law and the arms sector.

Example Submission Quote:

> "The UK government, by the Secretary of State and for Business and Trade, has itself admitted that "there is a clear risk that military exports to Israel, where used for military operations in Gaza, might be used in serious violations of international humanitarian law", and that "to continue to permit these exports would therefore be inconsistent with our Strategic Export Licensing Criteria." One such military export highlighted above are components for the "fighter aircraft (F-16s), parts for Unmanned Aerial Vehicles (UAVs), naval systems, and targeting equipment". BAE systems and Boeing are the manufacturers for these exports, which LSE invests in."

Arms and Weapons

Approximately 12 submissions referenced arms and weapons companies as a key ethical issue in relation to the investment policy. Of these, one submission voiced support for investing in arms companies; the rest expressed that investing in arms was counter to LSE's mission.

Example Submission Quotes:

> "We have seen in the press the political pressures being put on ESG policies in the UK to widen the category of 'ethical investments' to include weapons manufacturers, which underlines the importance of explicitly linking ESG policies to an institution's ethics code and explicit ethical commitments, as a number of pension funds have done."
>
> "The School should not, in my view, disinvest from the UK defence industries...To disinvest in this sector when it is becoming more important to the country's security is to let the country down. I hope the School will be happy to support the country's security and support policy measures to deter attacks on the UK and our allies."

LSE Ethics and Values

Approximately 12 submissions referred to LSE's Ethics Code and position as an educational institution. These submissions held that the ESG policy should explicitly reference the Ethics Code and be consistent with it.

Example Submission Quotes:

> "I think it would be inconceivable to have an ESG policy, which is itself an indication of a normative position on the part of the School, that did not refer to the School's Ethics Code and Guidance given that together they represent the most explicit single statement of the School's values. I would ask then that the new ESG policy explicitly refer to and comply with both the School's Ethics Code and Guidance."
>
> "Given the LSE's overall mission of promoting education and research for a better world, it is my view that we should hold our investments to a similar standard to the one we hold ourselves to and to the same standard that our ethical code (in particular with regard to donations) aspires to. This means that human rights considerations, ethical, sustainability, and governance considerations, and potentially others besides should be in our ESG policy and we should take an explicit view on how to deal with them."

Fossil Fuel Investments

Approximately 6 submissions directly referenced fossil fuel companies and/or the environment in their submission. These submissions voiced unanimous support to divest from companies involved in harming the planet and fossil fuel extraction.

Example Submission Quote:

> "This is a report I found from Friends of the Earth showing how pensions funds are divesting from fossil fuels across the UK. Why can't LSE?"

Institutional Neutrality

Approximately 5 submissions brought up the topic of institutional neutrality. These submissions offered how neutrality is operationalised within an ESG policy.

Example Submission Quotes:

> "I would like to advocate for sufficient attention to be paid to principles of institutional neutrality, in the Chicago Principles sense of the term. Importantly, this is not neutrality in the sense of 'all sides to an argument are equally valid', but in the sense that as an institution of higher learning, the LSE has (a) no robust way of aggregating a unified view on social & political issues; and (b) formulation of such views conflicts with important parts of its main mission."

> "International law and human rights are not affected by the LSE's current policies of political neutrality. An institution may be neutral about diverse global conflicts, but no progressive institution can be neutral about international law and human rights."

ESG Review Process and Transparency

A few submissions referenced the organisation of the ESG Review process itself and included calls for greater transparency on this as well as the investment decision-making process. This included arguing for:

- A more inclusive approach to ESG policy consultation including with LSE alumni and lifelong fellows
- Disclosure of current investment risk parameters
- Development of a hierarchy of duties to aid investment decision-making
- Design a process that allows for reflection and open conversation on potential biases that impede taking further action to uphold human rights
- Regular reporting mechanism to LSE sub-groups, like Academic Board, on investment decisions

Other

In this section, we list some topics that were mentioned in a small number of submissions:

- Conflict analysis as part of investment due diligence
- Mission-driven investing as a key pillar of the investment policy
- LSE’s strategy given growing EU regulations aimed at mitigating climate change and deforestation.
- An online database, Financial Exclusions tracker, that provides information on companies that have been excluded from the investment portfolios of large investors.

IV. Conclusion

The submissions reflect a strong consensus for a substantive revision of LSE's ESG policy including a sophisticated positioning of the School in relation to its ethical and mission-led commitments (approximately 10 submissions explicitly state the need for the ESG policy to be re-written).There is a general recognition of the importance of the endowment’s financial performance to support LSE’s mission; this is not positioned as a hindrance to a revised ESG policy.

We surmise the vast majority of submissions would like to see a revised policy that makes explicit reference to the Ethics Code and includes precise language regarding ethical and human rights commitments in relation to investment decision-making. There is significant support for divestment and exclusions from sectors that conflict with these ethics, such as fossil fuels, arms manufacturing, and companies involved in human rights violations. There is support for greater transparency and explanations regarding all stages of LSE’s investment decision-making.

Notes on Final ESG Review Public Event

Prepared by members of the Consultative Group

BACKGROUND

The final public event for the ESG Review process– Why does LSE's Approach Matter - took place on 6 May 2025. The planned agenda was a roundtable discussion facilitated by Danny Hatem, with 3 guest speakers, Stephen Tall and Sarah Cook from PAGE, and a guest speaker from KCL fundraising.

Organised by the Review Group (RG), this session focused on the operations of endowment fundraising and the main purpose of the endowment. As noted by the CG prior to the event, this meant that the topic of the event was not centred on the investment policy itself, which is the purpose of the ESG Review process. This incongruence was communicated to the RG by the CG on more than one occasion.

The event was attended by 30-40 audience members. This included 3-4 members of the Review Group, 2 members of the Consultative Group, 10-15 students and staff members, and approximately 15 members of a group that has been engaged in the ESG review process and used this event to stage a demonstration (explained below).

PROCEEDINGS

The panel began as planned, where Danny invited guest speakers to share their views and knowledge on the purpose of university endowments, how they raise money from donors, etc. The discussion primarily focused on the use of funds (and its restrictions).

After approximately 20 minutes, the panel was interrupted and taken over by students who directed questions to Danny regarding school management's omission of their position.

Specifically, they:

- Requested the school to produce a transparent assets holdings report, breaking down the holdings of index funds into holding companies. The School has made promises to do this but has so far not produced such a report.
- Presented a long scroll of documents, including detailed information on LSE Endowment's 300+ holdings, where some are directly or indirectly supplying weapons, technology, and services that support the war in Gaza and the occupation of Palestine.
- Students walked out of the room after around 20-30 minutes of presentation.

After this interruption, the remaining 40 minutes of the session comprised an informal discussion between the rest of the audience, partially moderated by Danny.

CG representatives spoke, expressing disappointment to RG's response to CG's past working papers and proposals, and the relatively limited efforts that RG has contributed to carry out the policy review. The CG noted that the review process has not concluded and expressed the plan of releasing all past working papers, a summary of online submissions that reflect LSE community's views, and a final policy proposal.

Note: This is an unofficial policy proposed by the ESG Consultative Group in June 2025 as part of the 2024–2025 ESG Policy Review. It has no effect unless adopted by Council.

LSE Ethical and Sustainable Investment Policy (ESIP)

Adopted [month] 2025

I. Purpose and background of the Policy

1. The purpose of this Ethical and Sustainable Investment Policy (***ESIP*** or the ***Policy***) is to prescribe *general goals* and *specific rules* that reflect the *best interests* of the London School of Economics and Political Science (***LSE*** or the ***School***) concerning its *investment activity*, which covers endowment reserves, long-term investment of retained surpluses, and investment of surplus working capital. As explained in Section V, the Council's Investments Sub-Committee is primarily responsible for implementing the ESIP.

2. LSE was founded in 1895 by four Fabian Society members, following a bequest of approximately £20,000 'for the betterment of society.' This founding purpose is reflected in the School's current 'object' as a company limited by guarantee and an exempt charity: 'to advance education, research and learning for the public benefit.'

3. The Council's fiduciary power to invest must be exercised to further this object, which is ordinarily achieved by maximising financial returns. The Council has discretion to avoid investments that potentially conflict with the charitable object, or could reduce support for the School or harm its reputation in the eyes of supporters and beneficiaries, including students, staff, alumni, donors, and members of the public who stand to benefit from LSE's educational and research advancements.

4. The ESIP replaces the 2022 Environmental, Social & Governance (***ESG***) Policy in response to the 2024–2025 ESG Policy Review (the ***Review***). The Review included a year-long consultative process, wherein a Council-appointed Review Group and a randomly selected Consultative Group (composed of nine self-nominated staff and student representatives) engaged with other LSE community members and stakeholders through, *inter alia*, a series of five in-person events and an open call for written submissions.

5. Three main considerations emerged from the Review, which are reflected in this Policy.

6. First, the consultative process reaffirmed the widespread concern of staff and students that the School's income has partly flowed from business activities that conflict with its charitable object and international reputation as an educational and research institution for the public benefit. Potential risks have been identified from LSE's indirect investments in oil and gas companies, in light of an escalating climate crisis, and the armaments industry, which profits from rogue actors that are daily violating human rights and international law. Such investments are seen to contradict LSE's public-facing commitments, including the School's Ethics Code, its Sustainability Strategic Plan, and the UN Principles for Responsible Investment (***PRI***).

7. Second, LSE should not change its investment policy on purely moral or political grounds, akin to stances taken by religious institutions or the government of the day. Any exclusions to the universe of investible assets must bear a rational relationship to the best interests of the LSE and not excessively limit the School's ability to maximise financial returns. A disproportionate exclusion policy might undermine the confidence of past and potential donors that their generous gifts would be invested prudently.

8. Third, the Review highlighted the need for greater transparency as to how the School's interests are balanced to formulate an investment policy that maximises financial return within the proportionate limits of LSE's ethical and sustainability commitments. The explanations contained in the ESIP itself are a first step towards such transparency.

II. Investment in the School's best interests

9. To advance the School's object, this Policy integrates five institutional interests of the LSE in setting the general goals and specific rules for its investment activity:

   A. *Access to education*—The School's investments should support present and future generations of LSE students from the UK and abroad by securing the long-term flow of funding for scholarships, learning resources, pastoral support, and recruitment.

B. *World-leading research*—The School's investments should maintain LSE's standing as a world-leading social science university by funding a research environment that promotes high-impact research outputs and public engagement.

C. *Institutional reputation*—Whereas investments should not be made purely on grounds where diverse members of the LSE community may legitimately hold different views, the School's ethical and sustainability commitments are deemed non-controversial, which must inform its investment activity to protect its global reputation as an educational and research institution for the public benefit.

D. *Ethical commitment*—The School's investments should not contradict the principles of its Ethics Code, including its commitment to avoid relationships that would make LSE complicit in illegal activity or the suppression of human rights.[1]

E. *Sustainability commitment*—Investment has been one of the six pillars of LSE's Sustainability Strategic Plan since its adoption, which includes a sector-leading commitment to achieve net zero emissions by 2030.[2]

III. Goals of the School's investment activity

10. All investment activity of LSE is guided by five general goals, which advance the best interests of the School in accordance with UK charity law:

A. *To maximise financial returns*—Members of the LSE Council owe a fiduciary obligation to the School's beneficiaries to maximise financial returns within agreed risk parameters, including reputational risk, and subject to any exclusions that reflect the School's best interests. Currently, the School's average return objective is fixed at CPI inflation +4.5% p.a. over the very long term (the ***Return Objective***). This Return Objective may be adjusted by Council's Finance & Estates Committee on the recommendation of its Investments Sub-Committee. The pursuit of the Return Objective is limited by specific exclusions, set out in Section IV.

B. *To avoid reputational risk*—In its pursuit of the Return Objective, the School aims to avoid making direct or indirect investments in companies, funds, or other assets that contradict its international reputation as a world-leading educational and research institution for the public benefit, taking into account its ethical and sustainability commitments. In doing so, LSE shall strengthen and expand its previous commitments to align the School's investment activity with net zero emissions by 2030 and to avoid the most harmful investments in fossil fuels, tobacco, and armaments. Specifically, LSE shall require its

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[1] LSE, *Ethical Guidance: A Companion to the Ethics Code* (April 2014). See also LSE, *External Funding Acceptance Policy* (July 2023).

[2] LSE, *#SustainableLSE: Our Sustainability Strategic Plan* (October 2020). Although the 2022 ESG Policy committed to align the School's investment activity with the target of net zero emissions by 2030, LSE's latest sustainability report states that the School's 2030 target applies only to Scope 1 and 2 emissions, with a much later target date of 2050 for Scope 3 emissions, which might be taken to include indirect emissions from an institution's financial investments: LSE, *Annual Sustainability Report 2023/24* (2024). The ESIP resolves this ambiguity in favour of the more ambitious 2030 target.

investment advisers and fund managers to reduce exposure, as far as possible, to direct or indirect holdings in companies that:

i. undermine access to education in the UK or abroad;
ii. contradict the intended public benefit of the School's research outputs;
iii. are engaged or complicit in violations of human rights or peremptory norms,[3] having regard to the best available criteria of establishing corporate engagement or complicity in such violations;[4] and/or
iv. are failing to align their business plans with the goal of the Paris Agreement to limit warming to 1.5°C above pre-industrial levels, having regard to corporate assessment tools on Carbon Performance and Management Quality developed by the Transition Pathway Initiative (***TPI***) team at LSE's Grantham Research Institute on Climate Change and the Environment.[5]

C. *To prioritise positive opportunities*—In its pursuit of the Return Objective, the School aims to prioritise investment opportunities that are expected to generate returns from positive impact, such as low-emissions technologies, energy-efficient infrastructure, net zero real estate, and companies that are committed to living wage action, circular economy practices, just transition initiatives, and pay equity across gender and ethnicity. In doing so, LSE shall require its investment advisers and fund managers to work with the TPI team to increase the School's exposure to companies across all sectors that have aligned their business plans to the warming limit of the Paris Agreement.[6]

D. *To collaborate with like-minded investors*—The School aims to collaborate with other investors and coalitions to identify and create investment opportunities that align with this Policy. At a minimum, the School shall maintain an active membership in the UN PRI and the Institutional Investors Group on Climate Change. Further, the School shall prioritise the coordination of its investment activity with other universities and the Universities Superannuation Scheme, given their common interest as long-term owners of capital to mitigate systemic risks such as climate change and biodiversity loss. Such collaboration is particularly important for LSE because it tends not to hold equities directly. If LSE decides to acquire direct holdings in any company, the School shall consider encouraging positive

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3 Peremptory norms, from which no country is allowed to derogate, are vital to the protection of human rights and firmly established in global consensus, which include the basic rules of international humanitarian law; the right of self-determination; and the prohibitions of aggression, genocide, crimes against humanity, racial discrimination and apartheid, slavery, and torture. See International Law Commission, 'Draft Conclusions on Identification and Legal Consequences of Peremptory Norms of General International Law (*Jus Cogens*), with Commentaries' (2022) UN Doc A/77/10.

4 Possible criteria include the MSCI ESG Controversies and Global Norms Methodology, the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, the UN Global Compact, and the UN Guiding Principles on Business and Human Rights.

5 Specifically, as new sectors and companies are rated by TPI's Carbon Performance Tool, LSE shall reduce its exposure to companies that are rated at Levels 1 (no or unsuitable disclosure), 2 (not aligned), 3 (alignment with aggregate national pledges) and 4 (alignment with the less ambitious 2°C limit)—in that order of priority—and increase exposure to companies rated at Level 5 (alignment with the much safer 1.5°C limit). See Simon Dietz and others, *TPI State of Transition Report 2024* (LSE 2024).

6 See footnote 5 above.

changes to corporate behaviour in concert with other shareholders through the company's annual general meeting.

E. *To maximise transparency*—The School aims to achieve the highest possible degree of transparency in its investment activity, including by updating its website regularly with lists of its direct and indirect holdings, convening an annual general meeting in which the Investments Sub-Committee reports to the LSE community, and providing well-planned opportunities for the review of this Policy, with input from staff, students, and other stakeholders. The School shall require its investment advisers and fund managers to promote corporate transparency on issues such as carbon emissions and supply chain due diligence. To model changes in corporate and investor behaviour for the public benefit, the School shall publish on its website any companies that have been excluded from its investment activity in accordance with the following rules.

IV. Rules on excluded investments

11. LSE must not hold material exposure to five categories of companies whose business activities are incompatible with the School's best interests and the goals of this Policy, foremost the aim of avoiding investments that contradict LSE's ethical and sustainability commitments and thereby reducing reputational risk.[7]

12. *Material exposure*, unless otherwise specified below, means investing directly or indirectly in any company that derives more than [e.g., 5%—to be determined by Council] of its total revenue from an excluded activity. This threshold is a proportionate limit on the goal of maximising returns, which would not compromise the School's pursuit of the Return Objective and thus give continued confidence to past and potential donors that their generous gifts would be invested prudently.

A. *Ethical exclusions*

i. <u>Tobacco products</u>—The School must not hold material exposure to companies engaged in the production, finance, distribution, or sale of tobacco products.

ii. <u>Armaments</u>—The School must not hold material exposure to companies engaged in the production, finance, distribution, or sale of armaments, or the key or dedicated components of armaments, including software and other support systems that are customised for military use.[8]

[7] For the avoidance of doubt, as a matter of UK law, LSE must not invest in sanctioned companies or individuals under the Global Human Rights Sanctions Regulations 2020 or any future equivalent regulation.

[8] *Armaments* include conventional military weapons, nuclear weapons, biological or chemical weapons, and controversial or indiscriminate weapons prohibited by treaty such as landmines and cluster munitions.

iii. Human rights violations—The School must not invest directly or indirectly in any company that is engaged or complicit in manifest violations of human rights or peremptory norms.[9] *Manifest violations* may be evidenced by multilateral condemnation, domestic or international judicial decisions, or equivalent evidence from reputable bodies.[10] In determining whether a given company is *engaged or complicit* in such violations, the School shall require its investment advisers and fund managers to apply the best available criteria of establishing corporate engagement or complicity.[11]

B. *Sustainability exclusions*

i. Fossil fuels—The School must not hold material exposure to companies engaged in the production, finance, distribution, or sale of oil, gas, or coal products.

ii. Net zero alignment—By 2030, to align LSE's investment activity with its commitment to net zero emissions, the School must not invest directly or indirectly in any company that has failed to align its business plan with Level 5 of the TPI's Carbon Performance tool, meaning that such companies have failed to align their emission intensity pathways to the goal of the Paris Agreement to limit warming to 1.5°C above pre-industrial levels.[12]

V. Who implements the Policy?

13. The School's Council is responsible for the ESIP as governing body of LSE.

14. The Policy is overseen and implemented by the Investments Sub-Committee, which reports to Council's Finance & Estates Committee.[13] In accordance with its terms of reference, the Investments Sub-Committee shall approve and annually review an Investment Strategy to implement this Policy; appoint the School's investment advisers and fund managers; and annually monitor the performance of those advisers and managers in compliance with this Policy. The Investments Sub-Committee shall also recommend any adjustments to the Return Objective for adoption by the Finance & Estates Committee.

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9 See footnote 3 above. The clearest examples of companies that have presently triggered this exclusion rule are those engaged or complicit in Russia's aggression against Ukraine or Israel's illegal occupation of Palestinian territory in violation of the right of self-determination and the prohibition of racial discrimination. These examples may also involve other violations of peremptory norms, such as the basic rules of international humanitarian law and the prohibitions of genocide, crimes against humanity, and apartheid.

10 E.g., UNGA Res ES-11/1 'Aggression against Ukraine' (2 March 2022) UN Doc A/RES/ES-11/1; *Legal Consequences arising from the Policies and Practices of Israel in the Occupied Palestinian Territory, including East Jerusalem*, International Court of Justice, Advisory Opinion (19 July 2024).

11 The best available criteria may be generic (see footnote 4 above) or specific to the violation: e.g., UN Human Rights Office of the High Commissioner, *OHCHR update of database of all business enterprises involved in the activities detailed in paragraph 96 of the report of the independent international fact-finding mission to investigate the implications of the Israeli settlements on the civil, political, economic, social and cultural rights of the Palestinian people throughout the Occupied Palestinian Territory, including East Jerusalem* (30 June 2023).

12 See footnotes 2 and 5 above.

13 LSE, *Investments Sub-Committee Terms of Reference* (approved by Council on 19 November 2024).

15. In cooperation with the LSE Student Union and Academic Board, the Council shall establish a Community Oversight Group (***COG***) to provide regular input on the implementation of this Policy, composed of two academic staff, two professional services staff, two students, and one alumni representative. One member of the COG will also be appointed as a member of the Investments Sub-Committee. The COG will be provided with the minutes of every meeting of the Investments Sub-Committee and provide input on its Investment Strategy.

16. The Investments Sub-Committee shall present a report on the implementation of this Policy at an annual general meeting, open to all members of the LSE community. The COG will provide a comment on the report.

VI. How may the Policy evolve?

17. The ESIP is a dynamic document that itself allows for regular review in response to changing circumstances, mainly based on the judgement of the Investments Sub-Committee. For example, the Investments Sub-Committee may recommend an adjustment to the Return Objective and will receive input from the COG at each meeting. The Sub-Committee will need to work with the School's investment advisers and fund managers to adopt the best available criteria to reduce exposure to companies that are engaged or complicit in violations of human rights and peremptory norms. The Sub-Committee will also need to work with TPI in reducing the School's exposure to companies that have failed to align their business plans with the 1.5°C warming limit of the Paris Agreement.

18. Where an individual or group within the LSE community considers that the School is not complying with this Policy or that the Policy should be reviewed or amended, they should first make that case to the COG. The COG will determine by majority whether or not to convey those concerns to the Investments Sub-Committee. Before doing so, the COG may conduct a survey of the LSE community on the relevant concerns.

19. The ESIP shall be formally reviewed every two years, or earlier upon the joint recommendation of the COG and the Investments Sub-Committee with the approval of Council.

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