

Statement of Council on LSE's Environmental, Social, and Governance Policy

I. Introduction and Background

Last July, in response to questions raised about LSE's Environmental, Social, and Governance (ESG) policy, Council moved a scheduled review of the policy forward by a year. We directed that the review should encompass "both questions regarding LSE's investment policies and practices and appropriate arrangements for ongoing governance and oversight." At the same time, Council made clear that, while LSE could take into consideration matters other than maximising financial returns, it would not do so "if the reason for and/or primary effect of such action is to express an institutional position on a controversial political dispute," as was the case for demands that we not invest in companies that do business in or with the state of Israel. While that question would not be open for reconsideration in the review, we explained, all other aspects of the School's existing ESG policy, including current policies related to investments in fossil fuels and arms manufacturing, were within its scope.

Determining investment policy and endowment management is a fiduciary responsibility of Council. In making decisions about these matters, Council consults with and takes advice and input from other sources it deems relevant and helpful. We therefore appointed an ESG Review Group consisting of internal and external experts to undertake the investigation and report back with recommendations by the end of Spring Term, 2025.

As has been done in the past, the Review Group was tasked with gathering input from the larger LSE community through invitations to provide written submissions and by holding community events. For purposes of this review, in addition to these established practices, Council authorised the creation of a Consultative Group that included students, faculty, and professional service staff "to gather input, offer advice, and help inform the larger community about our investment policies and endowment management practices."

The review was open to participation by all members of our community through a channel to receive written submissions and in five in-person events. The initial plan for the Review, the Terms of Reference of both the Review and Consultative Groups, and a full summary of the entire process can be found in the accompanying report of the Review Group, Section I and Annexes I, II, and III.

The review process was an enormous undertaking, and we are grateful to everyone who participated. We are particularly grateful to the members of the Review and Consultative Groups, who voluntarily gave so much time and attention to these matters, but we also wish to thank all the members of our community who contributed to their work.

The final reports of both the Review and Consultative Groups are comprehensive and thoughtful in addressing complex and difficult issues about which there are strong but differing opinions. We learned a great deal from both reports, which aided considerably in the decisions described below.

II. General Principles

Decision-making authority with respect to LSE's investment policies and management must as a matter of law remain with Council, and Council's decisions must be made independently, with consideration of both the present and future needs and interests of the university. Authorised actions must be for the purpose of furthering the charitable and corporate objective specified in LSE's Articles of Association, which is "to advance education, learning, and research for the public benefit." Essential guidance for this purpose has been provided by the Charity Commission, which has stated that charitable trustees must, among other things:

- *Act in the charity's best interests:*
 - *do what we (and no one else) decide will best enable the charity to carry out its purposes*
 - *make balanced and adequately informed decisions, thinking about the long term as well as the short term.*
- *Manage the charity's resources responsibly:*
 - *act responsibly, reasonably and honestly*
 - *make sure the charity's assets are only used to support or carry out its purposes*
 - *avoid exposing the charity's assets, beneficiaries or reputation to undue risk*
 - *not over-commit the charity.*

These duties have long been understood as making the primary goal in managing financial assets to maximise their economic value. Trustees may, however, take non-economic factors into account if: (1) the trust's beneficiaries share the relevant concerns,¹ and (2) there is "no risk of significant financial detriment."² Trustees' duty of care further requires that any discretionary exclusion, such as divestment or non-investment, is effective and proportionate to the non-financial goals the trustees seek to pursue. This rules out divestment that would have little effect because shares will simply change hands, for example, or where the trustees' goals could be more effectively achieved by engagement, and such engagement has stakeholder support.³

When considering whether to make or exclude particular categories of investment, trustees can take into account, for example, the risk of losing support from donors and/or damage to the reputation of the charity generally or beneficiaries particularly. Where trustees are of the reasonable view that investments potentially conflict with the charitable purposes, they have discretion to exclude such investments. In so doing, however, they must reasonably balance all relevant factors, including particularly the likelihood and seriousness of the potential

¹ *Harries (Bishop of Oxford) v Church Commissioners* [1993] 2 All ER 300 at [16] and *Cowan v Scargill*, [1985] 1 Ch 270, p. 288

² *per Lord Carnwath, R (on the application of Palestine Solidarity Campaign Ltd) v Secretary of State for Housing, Communities and Local Government*, [2020] UKSC 16 paragraph 43

³ Law Commission Report 350, *Fiduciary Duties of Investment Intermediaries*, para 4.50 and 6.34 (2014).

conflict and the likelihood and seriousness of any potential effect from the exclusion of such investments.⁴

Applying these principles to LSE, there is no question that the primary purpose of LSE's endowment is to provide financial resources for our charitable mission, and this must be the starting point and primary consideration in directing the School's investments.

But there is also no question that, as an institution of higher education and a centre of learning in the social sciences, LSE embraces certain non-material values and principles that are intrinsic to its mission and must also be considered in the conduct of its business, including its investments. Hence, we have previously acted on principles like sustainability, for example, or the need to maintain institutional neutrality in geopolitical conflicts, on the ground that these reflect fundamental values inherent to the proper functioning of a university like LSE.

Taking such considerations into account requires carefully balancing a range of considerations, including (i) the nature of the principle; (ii) the effect our actions can have in advancing it; (iii) the consequence such action will have on our financial position, and (iv) the practicality and feasibility of implementing the principle in managing investments.

III. Issues Considered in the Review Process

In addition to the specific issues discussed below, the Review Group considered the overall efficacy of our policy in comparison with those of other institutions of similar size and ambition. LSE's policy is very strong in some areas and, in some respects, truly innovative and cutting edge. With respect to sustainability, for example, our policy is on the leading edge of the sector, because of how it utilises data compiled by the Grantham Institute's Transition Pathways Initiative (TPI). The Review Group nevertheless encountered some areas in which good questions were raised about whether or how we might improve:

Transparency and Accessibility

There is and remains considerable debate over the maximum level of transparency the School can provide about our investment portfolio, as well as how that information should be presented to ensure maximum accessibility. The Review Group has recommended that LSE aim for the highest possible level of transparency that our investment managers can furnish, and that the website presenting this information be redesigned, with the goal of making this information as easily accessible and understandable as possible.

Fossil Fuels

In line with widely accepted best practices, LSE is presently committed to meeting a net zero investment portfolio by 2030. Our portfolio is on track to meet that target ahead of time, but the current Policy explicitly mentions our hope to further refine our approach to fossil fuels

⁴ *Susan Butler-Sloss & Others v Charity Commission of England and Wales* [2022] EWHC (Ch) and consequent guidance from the Charity Commission on 01 August 2023

and to continually reduce our exposure to unsustainable assets. In this connection, we note that the extant filters for companies exploiting Thermal Coal and Tar Sands, as well as those with the lowest TPI rating, have not been adjusted since the last Review in 2022, when they were tightened from their original levels to reduce our exposure to these assets. This can and should be reviewed for improvement by the Investment Subcommittee (ISC).

International Law/Human Rights

An issue strongly emphasised by the Consultative Group but also of concern to many others in our community is the role of international law as regards our investments, particularly in connection with potential or ongoing violations of human rights. We share these concerns for human rights violations and have consistently supported SMC-led policies relating to the way that LSE conducts its affairs, from the LSE Ethics Code to regulations governing the acceptance of donations. There should be no question of LSE's commitment in this respect.

Whether that commitment can be operationalised in connection with our investment policies, particularly given the legal and practical framework described above, is a different and more difficult question. We find the analysis of the Review Group in Annex IV of their report (pp. 26-28) persuasive. While the principle of respecting human rights is strong and important as a general matter, the effect of our seeking to advance it through changing investments would be *de minimis*. Even putting aside the likely consequences for the School's financial position, it is difficult to see how such a screen on investments could work in practice. As the Review Group notes, the number of international laws and norms at issue is both large and abstract, while the question whether these are being violated is invariably controversial and disputable—even among parties to the particular treaties or conventions (and even among LSE's faculty experts). As the Review Group concludes, adopting a policy linked to alleged human rights violations "would impose upon Council, its committees, and its agents a dizzying array of subjective choices about if, when, and how to apply it, with no method of guiding decisions other than through a conflict of values and priorities (i.e. politics)." On balance, we believe the impracticality and costs of attempting to promote international and human rights law through our investment practices outweigh the potential benefits to an extent inconsistent with our fiduciary responsibilities.

We recognise that not everyone agrees with this position. We have seen proposals to operationalise such a policy, both in the work of the Consultative Group and in the ESG policies of a small number of other institutions. While we are not at this time persuaded that these approaches adequately address the challenges, experience is important in informing our thinking, and these other institutions' experiences will be important in informing our decisions next time the School's ESG policy comes up for formal review.

Armaments

There is similar concern in our community about the issue of armaments. We understand these concerns, though opinions within our community are divided and reflect wide variance. The reasons for this are well explained in the report of the Review Group at Annex V (pp. 29-30). For instance, some believe any investment in instruments of injury and death is morally wrong, while others believe the opposite given the need for nations and peoples to defend

themselves against aggression. Our investments are necessarily in the production and sale of weapons, while the moral quandaries are principally in their use. Many of the companies producing and selling weapons do so alongside non-military business lines, significantly increasing the likely consequences of a broad exclusion on the School's financial position.

Council carefully balanced these and other considerations when it reviewed our ESG policy in 2022. At that time, we adopted a modest screen that excludes investments in companies engaged in "indiscriminate arms manufacture," which we subsequently defined in practice to include landmines and cluster munitions. In the course of the review, we learned that this is narrower than many of our peer institutions, which exclude an additional number of "controversial weapons."

IV. Findings and Conclusions

Taking all this into account, together with what we have learned throughout the review, there is a consensus on Council for the following conclusions going forward.

With two exceptions, discussed below, we fully endorse and accept all of the Review Group's recommendations to make our investment policy more dynamic, accessible, and reflective of our values. To summarise these briefly, we agree on:

- Reviewing our extant investment filters related to fossil fuels, tobacco, and armaments as soon as practicable, ideally by the end of this calendar year, to further reduce our exposure to these sectors, as appropriate.
- Holding an Annual General Meeting for the Endowment. Providing a regular opportunity for the LSE community to share research related to investment.
- Establishing a group tasked with initiating a conversation among universities concerning the investment management of the Universities Superannuation Scheme and the Superannuation Arrangements of the University of London.
- Achieving the highest possible degree of transparency and understanding about our investments and strategies
- Distributing an "induction package" of materials to help incoming staff and students understand the endowment and ESG Policy.

The Review Group suggests that we consider scheduling reviews of our ESG policy "perhaps every three years." Our current approach, consistent with general practice at peer institutions, is to review the policy every five years. We believe this is an appropriate spacing of formal reviews to ensure there is time to gain sufficient evidence and experience to determine what changes, if any, are appropriate, particularly given the sometimes controversial and contested nature of the inquiry. We will thus retain the practice of revisiting our policy formally every five years, though we hope and expect that input from the additional transparency we will implement will help those overseeing our investments to adapt and adjust between formal reviews. We particularly hope that the Annual General Meetings will provide an opportunity for ongoing reflection about whether and how LSE can best reconcile questions about harmonising our values, financial demands, and administrative capabilities.

In addition, following discussion by Council and its Committees, we want to consider a further change to the School's ESG Policy in connection with the narrow definition of controversial weapons presently excluded from our investments. Specifically, we charge the Investment Subcommittee to review our exposure and report back to Council about excluding the following:

- Chemical and biological weapons
- Depleted uranium weapons
- Blinding laser weapons
- Non-detectable fragments
- Incendiary weapons (specifically white phosphorus)

We believe there is a consensus in our community for excluding these weapons from our portfolio and that such an exclusion can be done consistent with our fiduciary responsibilities. Like the weapons currently excluded, these weapons cannot discriminate between civilian and military targets; their production and sale are controlled by international convention; and as such investing in them is inimical to the values of an institution of higher education. We further believe it feasible to identify and exclude such investments, even indirectly, in a manner consistent with the School's financial situation. As required by proper governance, however, we refer these matters back to the ISC for confirmation.