Divest-Invest: Positive Investment Briefing

Options for universities and colleges on reinvesting endowment funds committed for divestment

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COMMUNITY REINVEST

nus national union of students

Contents

Executive summary

This positive investment resource has been developed to support institutions that have committed to divest endowment funds from fossil fuels. There are links to pages with further information throughout, as well as to the glossary in section 7 in order to make this oft complex area easily accessible.

Divested funds provide institutions with an excellent opportunity to reinvest in worthwhile projects and infrastructure for the betterment of society and public good. Socially responsible reinvestments can deliver good financial returns whilst also helping society to tackle social justice issues, like climate change. This resource suggests three socially responsible reinvestment options:

1. **On-campus projects**, including energy efficiency projects, renewables projects, and community energy. On-campus projects offer a relatively low-risk investment, with the potential for high social impact, but they will tend to receive a lower annual return on investment than equity investments.
2. **Equity investments** are shareholdings in listed equities. These include low-carbon funds (shareholdings in a broad portfolio of generic companies); impact investments (shareholdings in specific companies that support a given social or environmental cause); and infrastructure investments (share-holdings in capital investment projects that are managed by listed companies). Typically, equity investments are higher risk than on-campus projects, but deliver greater annual returns on investment (up to up to 20% annual return on investment). The social impact varies between funds.
3. **Bonds** are long term debt investments. These are low risk, but deliver low annual returns on investment, tending to also deliver low social impact, unless they are thematic bonds such as 'green' or infrastructure bonds. Bonds are a good alternative to keeping cash in a bank account, but are less well suited to reinvesting endowments because of the low rates of return on investment.

Investment type	Level of risk	Social impact	Possible rate of return
1. On-campus projects	Low	High	Medium
2. Equity investments:			
• Low-carbon funds	Medium	Low	High
• Impact investments	Medium-high	High	Medium
• Infrastructure investments (community energy)	Medium-high	High	Medium
• Infrastructure investments (private companies)	Medium-high	Medium	Medium
3. Bonds	Low	Medium-low	Medium-low

Figure 1 Types of investment with relative risk, social impact and possible rates of return

Institutions should consider both fiduciary duty and Charity Law in relation to the reinvestment of their endowments. Both are open to interpretation; so individual institutions are advised to form their own opinion on how they relate to their endowments. Before deciding on any reinvestments, institutions will also need to form a view on the relative importance of risk, social impact and rates of financial return, and we would always encourage institutions to actively seek the views of student and staff representatives.

This guide should be used as resource to identify possible options, and to stimulate and inform discussion. The investment suggestions in this report are illustrative, rather than exhaustive and, by way of a disclaimer, the authors are not endorsing any given investment product. This resource is meant solely for guidance.

Section 1: On-campus projects

1.0 On-campus projects

1:1 Introduction

Investing endowments into capital projects on-campus is relatively low-risk, with the potential for high social impact.

Most tertiary education institutions with endowments invest them in listed equities (section 2.0). However, some invest their endowments in property, often through new buildings on campus.

Our understanding of Charity Commission Law is that institutions are free to decide how they invest their endowments, so long as they take into consideration any restrictions made at the time of the donation.

As such, funds released through the divestment of equity investments do not automatically have to be reinvested into more equity investments. Instead, tertiary education institutions could consider redeploying them into worthwhile capital expenditure projects on-campus, which this section provides examples of.

We have categorised the investment options for on-campus projects into three sections:

- Energy efficiency;
- Renewables infrastructure;
- Community energy.

1:2 Energy efficiency

Capital projects centred on energy efficiency will typically return paybacks of between 5% and 15%. These sort of projects revolve around the upgrading or replacement of equipment that consumes or conserves energy, such as replacing old windows, lagging heating pipes, upgrading insulation, modernising or replacing boilers, installing combined heat and power plants, voltage reduction, and upgrading lighting and controls.

If you are considering this as an investment option, it is a good idea to engage your institutional energy or environmental manager, as it is likely they will have some projects planned that are awaiting investment.

Salix Finance, a not-for-profit organisation providing interest-free loans to public sector organisations for energy-saving projects, has published a list of energy efficiency case studies here.

Salix funded the University of Liverpool to install two combined heat and power (CHP) generators with annual cash savings of £1.5million. Although the new plant still consumes fossil fuels, it is highly energy efficient, and has reduced the university's carbon emissions by 5,730 tonnes of carbon a year. Some universities, like Cranfield and UEA, have installed biomass boilers and CHP plants, which are classed as renewable energy.

The University of Manchester instigated a range of energy efficient technologies in relation to artificial lighting in their art gallery, saving £879,000 annually in electricity costs.

Northampton College replaced lighting with energy efficient LEDs, which reduced their annual spend by £4,500.

Institution	Project	Total project cost	Annual saving	Lifetime savings	Annual return on investment
University of Liverpool	Installation of Combined Heat and Power engines	£7,300,000	£1,500,000	£22,600,000	7.7%
University of Manchester	Implement energy efficient technologies	£2,182,401	£879,101	£11,183,905	13.7%
Northampton College	Install modern, energy efficient LED lighting	£20,000	£4,458	£111,450	7.1%

Figure 2: Examples of the proven paybacks of energy efficiency projects in the sector

1:3 Renewables infrastructure

Although renewables now receive significantly less of a government subsidy than in the past, installation costs have plummeted, so they still offer fair rates of return over product life.

An example of a successful renewable scheme is Lancaster University's wind turbine. The turbine was installed in 2012 at a cost £3.7million. Between the 1st August 2013 and 31st July 2014 it produced 5,042,328 kWh of electricity, which was 15% of campus electricity consumption - saving the institution £750,000 in energy procurement. The turbine will have paid for itself by early 2018, and should generate £15 million of energy over its 25-year life.

The project is popular with the university community, something that was reflected nationally in our 2015/16 attitudes survey, which found that 85% of respondents (base 4,998) believed their university should buy or generate more renewable energy, with 61% saying their university should use 100% carbon-neutral energy sources.

1:4 Community energy

According to our 2015/16 attitudes survey, 74% of respondents (base 3,725) agreed with the statement 'My university should offer opportunities for staff and students to invest in community-owned renewable energy projects on campus or in the local area'.

Furthermore, 54% of respondents (base 3,727) agreed with the statement 'I would consider the opportunity to invest personally in a community-owned renewable energy scheme on campus or in the local area'.

Given the high levels of interest and demand, during the 2016/17 academic year, NUS is keen to support one or more institutions in the development of a renewable energy project that is part-owned by staff, students and alumni.

An example of a community owned renewables scheme in higher education is Solar SOAS, whose work to install solar panels on the roofs of the SOAS estate has been pioneering.

Ownership models used in community-owned renewable schemes vary. Campus community shares or bonds, where staff, alumni and students co-invest, are often preferred, as they strengthen community ownership, involvement and energy democracy. However, these long-term projects require institutional commitment to ensure the student team or social

enterprise registered for purpose can continue a timely pay-out of dividends. As a campaign and community energy group, Solar SOAS are opting to raise investment to purchase the panels through a mix of shares and reward-based donations, in order to lower administrative costs, with the students' union and the institution providing the remaining value.

Comparatively, Community Energy England assisted Balcombe Primary School to install a 10kW solar PV system and a 16kW system at Turners Hill Primary School. These two projects were funded solely through community shares, which prioritised applications from local residents. 100% of the £49,000 investment came from individuals living with a 12-mile radius of Balcombe, which was important for those involved who wished it to be a project *by* and *for* the local community.

Section 2: Equity Investments

2.0 Equity investments

2.1 Introduction

Typically, shareholding investments are higher risk than capital projects on-campus, but deliver greater annual returns on investment. The social impact varies between different types of fund.

This section provides options for reinvesting divested monies into positive, socially responsible shareholdings that are low-carbon and, in most instances, fossil free (free from extractors/producers).

We have categorised the investment options in this section in three sections:

- Low-carbon funds (shareholdings in a broad portfolio of generic companies);
- Impact investments (shareholdings in specific companies that support a given social or environmental cause, such as social enterprise, wind energy, etc.);
- Infrastructure investments (share-holdings in capital investment projects that are managed by listed companies and community energy projects).

The information in this section has been compiled from a variety of sources, including 3D Investing, Community Reinvest and Platform's report '*Reinvesting Pensions: from fossil fuel divestment to reinvestment in the new economy*', Fossil Free Funds, and The Reinvestment Handbook.

The information was correct at the time of publishing this resource. Please check the NUS webpage for the most up-to-date version of this resource, there is a version number on the cover.

Please note, the authors are not endorsing or recommending any fund for investment, and institutions should seek independent financial advice before making investment decisions.

2:2 Low-carbon funds

Funds are large pots of shareholdings where investments are typically spread across sectors to ensure a diverse portfolio. They are sometimes directly managed by finance staff in universities, but more commonly are managed remotely by an external fund manager. As they tend to be established financial products open to any investor, institutions have limited influence as to individual investment exclusions or inclusions.

This section comprises a selection of low carbon and ethical investment products that are on the market at the time of publishing this resource.

Whilst the named funds are generally free of companies that extract fossil fuels (e.g. Shell, BP), they may have investments in fossil fuel supplier companies (such as the 'big six' energy companies[1]) and fossil fuel infrastructure companies that provide services to the extractors (e.g. General Electric, who are suppliers of equipment to the oil and gas extraction industry).

This highlights the challenge with low-carbon funds made up of shares and stockholdings, in that even bespoke fossil-free and ethical investment products tend to have some links to the fossil fuel industry.

In terms of endowment investments, it is down to individual institutions to decide what links to the fossil fuels industry are acceptable to them. NUS' Divest-Invest

[1] The 'Big Six' energy suppliers consist of: 1) British Gas (owned by UK firm Centrica); 2) EDF Energy (owned by French national provider EDF SA, which is the biggest electricity producer in the UK); 3) E.ON (owned by German E.ON AG); 4) npower (owned by German RWE); 5) Scottish Power (owned by Spanish-based Iberdrola); and 6) SSE (Scottish-registered company).

campaign is focused on divesting and reinvesting endowments invested in the extractors only, as they are relatively easy to define and identify, and tend not to be meaningfully linked to renewables.

It should also be noted that there are concerns over some operators in the renewables sector, as there have been echoes of the fossil fuel industry's colonial behaviour in the Global South, taking land for renewables installations and diverting profits away from local communities.[2]

We have flagged some of the more common specific considerations in italics after each fund description, although this information is likely to change as fund managers tend to actively manage and change their portfolios. It is also important to acknowledge that a full list of holdings could not be found for all funds, so further research is strongly advised. The annualised performance of each fund has been provided, where possible.

2.2.1 Clean technologies

Triodos Renewables Europe Fund

An initiative of Triodos Bank, this fund invests in small to medium sized clean energy producers, which allows for investments into renewable energy and active contributions to CO2 reduction through a well-diversified portfolio in proven technologies. It offers investors the opportunity to actively contribute to the growth of renewable energy production in Europe.

The fund invests in equity and subordinated debt of small to medium-sized European producers of green power, primarily wind and solar energy power plants.

In April 2016, the fund manager confirmed that there are there no companies in the portfolio that are involved in the discovery, exploration or distribution of oil, coal or natural gas. See minimum exclusions for further information.

Period	Annualised performance
1 year	3.5%
3 years	1.3%
5 years	2.2%
Since inception	2.6%

Figure 3: Recent performance data for the Triodos Renewables Europe Fund (source: Triodos)

Specific considerations - one of the companies involved in an invested renewable project is BP Solar, the renewables-arm of BP.

2.2.2 Environmental, social and governance criteria

Alliance Trust Sustainable Future UK Growth

This fund scores highly on the 3D Fund Analyst tool, receiving a five-star rating.

"The fund aims for long term capital growth, this is generally regarded as 5 years or more. It will invest in the shares of a broad range of UK companies based on the Fund manager's view of their long term return prospects. It will invest only in companies that meet our rules for environmental and social responsibility. Typically, at least 80% of the Fund will be invested in the shares of UK companies. Investments in the UK bond market may also be made from time to time".

In April 2016, the fund manager confirmed that there are there no companies in the portfolio that are involved in the discovery, exploration or distribution of oil, coal or natural gas.

[2] Magdalena Heuwieser's book "Green Colonialism in Honduras: Land Grabbing in the Name of Climate Protection and the Defense of the Commons", Promedia, Vienna, 2015

Period	Annualised performance
1 year	-3.62%
3 year	7.91%
5 year	8.15%
10 year	4.5%

Figure 4: Recent performance data for the Alliance Trust Sustainable Future UK Growth Fund (source: Morningstar)

Specific considerations - three fossil fuel infrastructure companies are listed: Croda International; Melrose Industries PLC and Velocys PLC.

2.2.3 Social impact

Low Carbon Workplace Fund

This fund is a partnership between the Carbon Trust, fund manager Columbia Threadneedle Investments, and property developer Stanhope, who acquire commercial office buildings and refurbish them into modern, energy efficient workplaces.

Occupiers benefit from ongoing support from the Carbon Trust, helping them to minimise their energy costs and carbon emissions. Whilst zero-fossil fuel refurbishments are typically not practical, renewable technologies are included as part of a wider strategy building by building.

No performance data was available at the time of publishing this resource.

Threadneedle UK Social Bond

This fund operates through a social investor partnership with Big Issue Invest. It aims to achieve total return through investments which "support socially beneficial activities and developments, in eight areas: affordable housing, education, employment and training, health and social care, financial inclusion, community services, transport and communication infrastructure, utilities and the environment". As part of their social assessment methodology, they look for the level of deprivation in relation to geography and give a higher value to outcomes in relatively deprived areas.

Period	Annualised performance
1 year	-3.8%

Figure 6: Recent performance data for the Threadneedle UK Social Bond (source: Morningstar)

Specific considerations: one of the top 25 holdings is with Electricity North West, a fossil fuel supplier company

2.2.4 Sustainability

Triodos Sustainable Pioneer Fund

This fund invests in worldwide equities issued by listed companies that are pioneers in: climate protection (sustainable energy); healthy people (medical technology); clean planet (environmental technology and water) and corporate social responsibility (CSR).

In April 2016, the fund manager confirmed that there are there no companies in the portfolio that are involved in the discovery, exploration or distribution of oil, coal or natural gas. See minimum exclusions for further information.

Period	Annualised performance
1 year	-3.5%
3 years	18.3%
5 years	8.0%
Since inception	3.6%

Figure 7: Recent performance data for the Triodos Sustainable Pioneer Fund (source: Triodos)

Guinness Alternative Energy

This fund "invests in companies in the solar, wind, hydro, geothermal, biofuels, biomass and energy efficiency sectors". "The Fund is a long-only equity portfolio of 30 equally-weighted positions. Normally the Fund is invested in companies with a market capitalisation over $100 million".

In April 2016 the fund manager confirmed that this fund has no links to the fossil fuel industry, with investments made up of solar, wind, hydro, geothermal, biofuels, biomass and energy efficiency sectors.

Period	Annualised performance
1 year	-19.5%
3 years	5.37%
5 years	-11.6%

Figure 8: Recent performance data for the Guinness Alternative Energy fund (source: Guinness)

Henderson Global Care Growth

"The fund is a long-term thematic global equity fund, which combines positive (ESG and fundamental) and negative (exclusion) criteria. The fund targets companies that are growing sustainably. Every holding in the fund must fit into one of ten sustainability themes derived from the four megatrends of climate change, resource constraints, population growth and ageing demographics."

In May 2016, the fund manager confirmed that there are no companies in the portfolio that are involved in the discovery or extraction of oil and coal or in power generation companies that use coal or oil. Overall, the fund has a very low carbon footprint.

Period	Annualised performance
1 year	-3.83%
3 year	10.19%
5 year	8.75%
7 year	13.08%
10 year	7.13%
Since inception	7.4%

Figure 5: Recent performance data for the Henderson Global Care Growth Fund (source: Henderson)

Triodos Sustainable Equity Fund

This fund is a "global fund investing in large listed sustainable equities. Healthy companies delivering superior social and environmental performance; Rigorous best-in-class selection of sustainability performance, with strict minimum standards; Influence the sustainable practices of large companies; Risks diversified across sectors and continents".

In April 2016, the fund manager confirmed that there are there no companies in the portfolio that are involved in the discovery, exploration or distribution of oil, coal or natural gas. See minimum exclusions for further information.

Period	Annualised performance
1 year	-7.2%
3 years	13.4%
5 years	9.8%
Since inception	3.0%

Figure 9: Recent performance data for the Triodos Sustainable Equity Fund (source: Triodos)

The Climate Assets Fund

This fund "invests around the world with a focus on investment opportunities arising from the convergence of climate change, resource scarcity and population shifts. We will invest in companies providing solutions to the problems of using fossil fuels and energy scarcity & security, such as those involved in renewable energy generation, green transport, products & technologies for green building design & construction and energy efficiency."

In April 2016, the fund manager confirmed that there are there no companies in the portfolio that are involved in the discovery, exploration or distribution of oil, coal or natural gas. Companies involved in mining are also avoided. Ethical screenings are conducted by a third party to ensure accountability and independence.

Period	User defined performance
01/03/2010 to 29/02/2016	8.0%

Figure 10: Performance data for The Climate Assets Fund (source: Quilter Cheviot)

Specific considerations: included in the top 10 holdings are Emerson Electric, a supplier of infrastructure to the fossil fuel extraction industry.

ConBrio B.E.S.T. Income

This fund applies broad investment criteria: Business and financial; environmental and ecological; social; governance and transparency. This fund has been placed in the top 10% of sustainable funds by the Morningstar.

In March 2016 the fund manager confirmed that it "excludes from consideration all companies falling into the Oil & Gas Producers and Mining sectors" effectively ruling "out almost all companies involved in the extraction of fossil fuels", but that they "do not claim that the fund is 100% fossil-fuel free". See specific considerations below.

Period	Annualised performance
1 year	-3.27%
3 years	6.4%

Figure 11: Recent performance data for the of the ConBrio B.E.S.T. Income fund (source: Morningstar)

Specific considerations: included in the top 10 holdings are two suppliers: National Grid (it runs power stations in the US) and SSE. It also includes the Kier Group, which has a small coal mining operation currently being sold off.

Sustainable Balance Fund

This fund "offers the unusual combination of: steady performance, management to a clearly defined balanced profile and a cost conscious approach, together with a 'sustainable' philosophy. The fund is made up of three portfolios: fixed interest, equity and tactical overlay".

In April 2016, the fund manager confirmed that there are there no companies in the portfolio that are involved in the discovery, exploration or distribution of oil, coal or natural gas.

Period	Annualised performance
1 year	-2.83%
3 years	4.70%
5 years	5.2%

Figure 13: Sustainable Balance Fund (source: Seven)

2.2.5 Ethical fund managers

This section contains further information on some of the companies that manage the funds listed in section 2.2.1 to 2.2.4.

Alliance Trust

Alliance Trust maintain three funds that are completely fossil free and are interested in engaging with institutions who are working towards a fossil free portfolio.

Foresight Group

The Foresight Group currently manages £1.8 billion of assets on behalf of its clients, including the European Investment Bank, the UK Green Investment Bank, several UK Public Pension Funds and other leading Infrastructure investors.

Impax Environmental Markets

IEM aims "to enable investors to benefit from growth in the markets for cleaner or more efficient delivery of basic services of energy, water and waste. Investments are made predominantly in quoted companies which provide, utilise, implement or advise upon technology-based systems, products or services in environmental markets, particularly those of alternative energy and energy efficiency, water treatment and pollution control, and waste technology and resource management (which includes sustainable food, agriculture and forestry)".

Seven Investment Management

SIM "offer a range of specialist funds, including their 'Sustainable Balanced Fund'".

2:3 Impact investments

As low-carbon funds tend to be invested in large transnational corporations, they often have questions hanging over them on a myriad of social or environmental issues. For example, a fossil-free fund might be good environmentally, but it might come under criticism for investments in oppressive regimes, companies linked to the armaments industry, workers' rights issues, etc.

Impact investments are much more focused than the previous funds. Impact investments typically have large shareholdings in small numbers of specific companies that support a given social or environmental cause.

Impact investments, in conjunction with governmental strategies, can really help progress targeted social or environmental issues. Because they are targeted, they tend to be higher risk than low-carbon funds concentrated in companies etc., but also have a higher social impact.

This section contains a few examples of impact investments that institutions may want to consider.

Bridges Ventures provide a range of funds that intend to benefit both society and the responsible investor. Their Sustainable Growth Funds boast "a strong track record of supporting entrepreneurs and building businesses that can excel both commercially as well as create positive impact"; their Property Funds "invest in properties in regeneration areas and those showing environmental leadership" and their Social Sector Funds "provide finance and support to charities and social enterprises delivering services with high social impact".

(GIVE) Global Echo ETF "is designed as a core allocation that proactively seeks opportunities in Sustainable and Impact Investment themes. The fund will allocate capital to equity of publicly traded companies and debt securities with a proactive and meaningful sustainability mandate. The portfolio managers seek securities that may technologically, socially and environmentally impact the earth positively – with a focus on themes such as water, clean energy, innovation and other sustainable themes. Through the portfolio managers, GIVE brings Corporate Sustainability, Shareholder Advocacy and Activism, Community Investing, Fossil Fuel Divesting, Impact Investing, Innovation, Commitment to Education, and Philanthropy together in a single investment".

Rasmala Palestine Equity Fund "seeks to achieve long-term capital appreciation by investing in a diversified portfolio of growth and value stocks listed on the Palestine Stock Exchange (PSE), in securities anticipated to undergo initial public offerings as well as securities at their initial public offering. The fund focuses on key economic sectors: banking, telecommunications, investment, and pharmaceutical".

Yansa Group are "building an investment platform to finance community-based wind farm projects, offering investors opportunities to advance environmental sustainability and social impact. The community wind farms will be financed through debt, ensuring community ownership over the project. The loans will be used to build the wind farm and the resulting power will be bought by the Mexican government's national grid through a guaranteed contract with a fixed price. Yansa only starts projects on the basis of sold contractual agreements with fixed prices for risk-minimization. Yansa will assess the impact of the community wind farm based upon community determined priorities and baseline indicators, such as access to education and standard of living,

formulated prior to installing the wind turbines," and "will work with investors to define an appropriate system to measure and report social impact in accordance with the social, economic and environmental priorities as set by the community".

2.4: Infrastructure investments

In terms of sustainability, infrastructure investments comprise shareholdings in specific infrastructure projects, such as wind farms, or solar farms. It is important to be aware that infrastructure sometimes refers to fossil fuel infrastructure, such as fracking, so once again, further research is key. In some cases, infrastructure investing provides communities with the capacity to democratically control their own energy, whereas others provide capital to private companies.

Infrastructure investing carries a medium risk, but can provide a high social impact if the capital is being used to support community energy. The impact is medium for social impact when the infrastructure is for private renewable companies as it supports a shift away from fossil fuel funding, but continues with 'business-as-usual' in terms of democratic control of that energy. The two options with high social impact have been detailed so.

Swindon Common Farm Solar, has a high social impact as it is "a partnership between the Council and community to fund a 4.8MW ground-mounted solar farm near Swindon" and "is part of Swindon Borough Council's mission to develop a low-carbon economy […] Structured as a Community Interest Company, it supports the council's work while sharing profits with the community".

Westmill Solar Co-operative, a project with high social impact, "owns and operates the first community owned solar farm in the UK - hopefully of many to follow - and we believe we are the largest community owned solar project in the world. The solar farm is rated at 5MW, located on the Oxfordshire/Wiltshire border, spread across 30 acres, read more in the Solar Park section. We have over 1600 members who share a say in how the cooperative is run and benefit from a share of the project revenues".

Bluefield Solar is "focused on the growing number of investment opportunities emerging in energy infrastructure, such as solar PV, which have the potential to deliver stable yield and income. Bluefield's deployment and asset advisory strategy is based upon the development of long term partnerships with select groups of contractors and energy off-takers. Combined team track record - £7 billion of renewable and conventional energy projects and £500 million solar energy transactions in both the UK and Europe".

Foresight Solar Fund Limited "is a Jersey registered, closed-end investment company. The Company seeks to provide investors with a sustainable and increasing dividend together with the potential for capital growth over the long-term by investing in a diversified portfolio of predominantly UK operating ground based solar assets".

Specific considerations: the company is registered in Jersey for "tax reasons" and may not be a desirable investment for that reason.

Greencoat Wind's "portfolio consists of interests in seventeen wind farms located in the UK, together having an aggregate net installed capacity of 301.4MW. All of these assets are onshore except for Rhyl Flats".

John Laing Environmental Assets' "investment policy is to invest in environmental infrastructure projects that have the benefit of long-term, predictable, wholly or partially inflation-linked cash flows supported by long-term contracts or stable regulatory frameworks. The current portfolio includes onshore wind, PV solar, and waste and waste water processing projects in the UK. Wind and Solar projects

are supported by the UK's commitment to support low-carbon electricity targets and the waste and waste water processing projects have operating track records of more than five years and benefit from long-term contracts backed by the UK government". Examples of the infrastructure projects available for investment include: Bilsthorpe Wind, Wear Point Wind Farm and Amber Solar.

Specific considerations: Amber Solar has a contract with a Big Six energy supplier, alongside it's long-term Feed-In Tariff payments.

NextEnergy Solar is a specialist investment company focused on operating solar photovoltaic assets exclusively located in the UK.

Section 3: Bonds

3.0 Bonds

3.1 Introduction

Typically, bonds are low risk, but deliver low annual returns on investment. They tend to also deliver low social impact, unless they are specific green bonds

A bond is a long-term debt sold to investors. When you buy a bond, you are lending to the issuer, which may be a government, municipality, corporation, bank, or building society.

Bonds could be useful to institutions looking to reinvest money that is sat in banks accounts. This is relevant to fossil fuel divestment because the top five UK banks (HSBC, Barclays, Lloyds Bank, RBS and Santander) are all heavily invested in fossil fuel companies with a combined total of £66 billion investments in carbon intensive industries.[3]

Bonds will typically offer annual returns of 3-5%, so should provide better returns than standard bank rates of interest.

3:2 Bond investment options

Move Your Money provides some useful information on bonds.

A number of **building societies** offer bonds that could be deemed to be fossil-free. For example, Nationwide does not use its money to support fossil fuel extraction, as the majority of its revenue goes into property and customer loans. The building society does not invest in tobacco, arms, alcohol, gambling, coal, oil and gas.

Likewise, some **credit unions** offer bonds. Credit Unions tend to lend to sole traders and small and medium enterprises (SMEs), rather than large or international companies. A few tertiary education institutions have developed partnership switch local credit unions, such as at Walsall College.

Additionally, Community Reinvest and Platform's report has an useful section on *Green Bonds*, which we have copied here:

"Green bonds are 'thematic' bonds, that is, they function exactly as regular bonds but are specifically designed to mobilise capital for the low carbon transition. The market is growing but unregulated. Green bonds are generally self-labelled rather than certified by an independent organisation and there are concerns regarding transparency. Organisations such as the Climate Bonds Initiative (CBI) and International Capital Market Association (ICMA) are developing definitions and standards to create a common framework. CBI has developed a Climate Bonds Taxonomy to encourage common definitions across the green bond market and a Climate Bond Standards and Certification Scheme. The ICMA has developed Green Bond Principles, a voluntary process guidelines that recommend transparency and disclosure.

CBI estimates that the global labelled green bond market is valued at $65.9bn with a further $531.8bn in unlabelled climate-aligned bonds. 'Labelled' means that 100% of the proceeds from the bond sale are invested in projects or assets that fit within CBI's Climate Bonds Taxonomy. The unlabelled climate-aligned bonds are issued by companies who derive 95%+ of their revenues from climate-aligned assets, as defined in the taxonomy. Within this universe, rail bonds issued by governments are the largest type of bonds followed by energy bonds.

[3] http://moveyourmoney.org.uk/campaigns/divest/

Network Rail has issued $44.1bn of unlabelled climate-aligned bonds and Transport for 16 London has issued $400m of bonds as green26. Although not labelled 'green', public infrastructure bonds such as Warrington Borough Council's recent £150m bond issue27 to fund the building of new homes is also a suitable option for reinvestment. Warrington is the first local authority outside London to issue a bond in recent times. But as more councils follow Warrington's lead, there will be greater opportunities for public sector pensions to support public infrastructure bonds.

Health warning: As with all types of investments, green bonds don't automatically guarantee new economy reinvestment. Since green bonds are generally self-labelled, thorough scrutiny is required to ensure that the bonds are being used for investment into the new economy.

For example, the European Investment Bank and the European Bank for Reconstruction and Development have been issuers of green bonds – with the former issuing €10bn of green bonds.28 However, both banks have been criticised for driving a politics of privatisation, and subsidising carbon intensive and fossil fuel infrastructure.

Green bonds - if chosen with thorough consideration - can form an important part of a reinvestment strategy and support local jobs and infrastructure while delivering a solid return."

('Health warning' in the context of Community Reinvest and Platform's report has the same meaning as 'specific considerations' in this resource. It highlights any issues that investors need to be aware of when considering an investment).

Section 4: Fiduciary duty

4.0 Fiduciary duty

4:1 What is 'fiduciary duty'?

'Fiduciary duty' exists to ensure that those who manage other people's money act in the interests of beneficiaries, rather than their own.

'Fiduciary Duty in the 21st Century' is an 88-page report hosted on the United Nation's Principles for Responsible Investment website, and is based on an analysis of investment practice and fiduciary duty in eight countries. It highlights two important facets to this duty:

1. Loyalty: Fiduciaries should act in good faith in the interests of their beneficiaries, should impartially balance the conflicting interests of different beneficiaries, should avoid conflicts of interest and should not act for the benefit of themselves or a third party.

2. Prudence: Fiduciaries should act with due care, skill and diligence, investing as an 'ordinary prudent person' would do.

4:2 What does this mean for university governors?

Whilst traditional perceptions of fiduciary duty – often reinforced by consultant and legal advice – have centred on financial responsibilities, recent policy discussions have widened the debate, arguing that "fiduciaries should take account of their beneficiaries' views as to what constitutes their best interests".

The Kay Review of UK Equity Markets and Long-Term Decision Making: Final Report, commissioned by the government off the back of the 2008 financial crash and published in July 2012, reinforced the need for:

> "[…] a culture of long term decision-making, trust and stewardship to protect savers' interests. The report recognised the essential role that fiduciary duties play in the promotion of such a culture but highlighted the damage being done by misinterpretations and misapplications of fiduciary duty in practice".

In response, the government launched a further investigation, which resulted in the Law Commission's publication of *Fiduciary Duties of Investment Intermediaries (2014)*. Part of its conclusion was that:

> "(a) trustees should take into account wider factors relevant to long-term investment purposes, including ESG factors relevant to financial returns, and (b) while the primary focus of pension trustees should be the pursuit of financial returns, trustees were able to take into account wider considerations – including ESG issues relevant to financial returns, macroeconomic factors, non-financial factors (such as quality of life and 'purely ethical' concerns) and the views of beneficiaries – provided that such decisions do not cause significant financial detriment".

This means that, in the first instance, it is important for governors and trustees to take into account campaigns by beneficiaries pushing for divestment from certain sectors in favour of reinvestment into socially responsible ones.

By taking a wider definition of what 'fiduciary duty' means, decisions made in the long term interests of those whom the surpluses seek to benefit, endowment funds for example, allow not only for more democratic governance processes, but also for more ethical decisions to be taken.

4:3 What if a narrower, traditional definition is chosen?

If 'fiduciary duty' is defined through the narrower paradigm of financial considerations, the case for divestment from carbon intensive sectors is actually strengthened.

At present, fossil fuel companies are valued based on the extraction potential of their reserves. However, these 'assets' will be 'stranded' if they are unable to be extracted due to regulation; they will become 'stranded assets'[4].

Already, we have seen a significant shift towards the downturn of fossil fuel companies, with falling oil prices and the recent bankruptcy of the world's largest private coal producer, Peabody Energy. The months of April and May 2016 saw UK solar out-powering coal for an entire 24 hours, the UK energy mix completely omitting coal for the first time since the industrial revolution, Germany being powered by almost 100% renewable energy for a day and Portugal for four whole days. This undeniable rise of renewables marks an important transition from the 'brown' economy to the 'green' and in the context of the Paris Agreement 2015 this is very much a reality that investors need to act on in the interests of their beneficiaries.

The decision to transition as soon as possible would be very much in line with 'fiduciary duty' as, provided "that the decision is based on credible assumptions and robust processes", failure to factor this in could result in a failure to practise due diligence and thus would be a failure to act in the best interests of beneficiaries.

A legal opinion given by Christopher McCall QC in November 2015 provided nuance to this debate, highlighting a "conflict between fossil fuels and charities' missions" which "could lead to a change in Charity Commission guidance and wider responsible investment practice.

The opinion also lays particular emphasis on the need for fiduciaries generally to be alive to the possibility of financial risk in investments which might be described as stranded assets".[5]

This opinion can be read in detail here.

4 http://www.unhealthyinvestments.uk/uploads/1/3/1/5/13150249/unhealthy_investments_final.pdf p 6

5 http://www.bwbllp.com/knowledge/2015/11/25/bwb-instructs-christopher-mccall-qc-on-ethically-questionable-investments/

Section 5: Useful online platforms and resources

5.0 Useful organisations

Links to further information

The positive investment options outlined in this resource are indicative rather than exhaustive, and the specific financial products on offer will change regularly.

Here are some links to help you find more options and current product offerings and performance.

- **3Dinvesting** is an online tool that "enables easy comparison of well over 100 ethical, environmental and socially responsible funds, including 3D Investing ratings of social impact, SRI capability, risk and financial performance". Whilst it is necessary to register – which can be done for free – this tool not only details where investors can ethically place their money, but also flags funds that might have certain 'ethical issues' associated with them. For example, Alliance Trust Investors UK Ethical is flagged due to its association with Alkane (shale gas rights).

- **Abundance** "offers peer-to-peer investments that create something good for the environment and society, without compromising on your financial return. You can invest directly in a range of projects with Abundance, which offer social and environmental benefits as well as a long term, bank beating income".

- **Community Shares** is a useful online tool that provides investors, enterprises and practitioners with guidance on how to get involved with community share offers. These aim to respond to a need a community wants to see fulfilled.

- **Decarboniser** is a planetary investment tool "created by Corporate Knights and powered by carbon data from South Pole Group, the Clean Capitalist Decarbonizer is a free interactive tool that shows the financial implications of divesting high carbon companies in favour of those that derive at least 20% of their revenues from environmental markets or new energy".

- **Ethex** "brings together on one platform the best positive savings and investment opportunities to make it easy to make money do good. On our platform, you can browse, compare and invest in a range of products from bank accounts and ISAs to equity investments and charity bonds that offer a social and environmental as well as a financial return. Through Ethex you can invest and save with businesses you believe in – whether it's renewable energy, fair trade, social housing, organic farming, green transport, or micro-finance schemes – and these positive businesses can then find the investment they need to develop and grow".

- **Fossil free funds**, an initiative of *As You Sow,* provides an extremely useful search platform that allows the user to designate their own ethical parameters. However, it is necessary for the institutional investor to explore the funds further, as the fossil free filter misses out on some stocks. For example, the Royal London Sustainable World Fund is classified as having 0% fossil fuel holdings, but in the Fund's portfolio breakdown 2.1% of their sectorial diversification is in oil and gas.

- NUS' reports on both fossil fuel investments and attitudes to divest-invest across the sector provide a useful overview of the position of Higher Education institutions at this present time.

Section 6: Next steps

6.0 Next steps

This resource has outlined a cross-section of the reinvestment options for funds scheduled for divestment.

Reinvesting can be a lengthy process. Nearly all of the UK universities that have thus far committed to divestment intend to phase reinvestment over a specified time-frame. For example, SOAS will divest over a three-year period (as of 2015).

These long time frames are a good thing, as it provides sufficient time for reinvestment options to be fully researched and considered. This is important given the myriad of considerations that should be taken into account.

Consideration should be given to engaging staff and student representatives in taking reinvestment decisions. In relation to students, the CUC's governance guidance rightly constructs the student community as partners in the decisions that their institutions take, and the reinvestment of divested funds has the ability for this democratic relationship to be strengthened.

It is necessary for those involved with the process to be strategic and consider what they wish their investments to reveal about their institution: is financial or social impact more important? Is there a way that these two could be balanced? How risk-averse should the institution be with endowments? How might investments help the institution deliver its public good remit? How might investments support the institution's carbon reduction plan? Could institutional democracy be enhanced through working towards community-owned renewables on-campus? Could they also enhance ties between the university and local community? Could the staff, student and alumni communities be engaged as co-investors in community energy?

Concluding thoughts

Whilst these are challenging times for the UK energy sector, the 2015 COP21 Agreement reaffirmed a global commitment for a transition to a low carbon economy.

Over the years ahead, investor confidence in low carbon and fossil free investments will surely increase as more and more investors move their money from fossil fuel investments to avoid being left with stranded assets.

UK tertiary education institutions have an opportunity to be on the leading edge of this transition, putting their endowments to good use by reinvesting them in socially responsible investments that are for the public good.

NUS is keen to support and promote institutions through its Divest-Invest campaign. Please keep us posted and let us know if we can help!

Section 6: Glossary

7.0 Glossary

Annualised performance: the average return on an investment each year.

Bonds: a fixed income or fixed interest asset that pays out a set amount, providing the investor with a middle-range of risk.

Divestment: moving money out of morally ambiguous stocks and shares.

Endowment: money donated to a University for a specific purposes – it cannot be spent, but the income raised from investing the money can be. Not all universities have them. The largest endowments in the UK are with Oxford and Cambridge universities.

External fund manager: money is outsourced to these managers by some institutions –it means that Universities themselves don't have direct oversight of where money is invested.

Fossil fuels: a natural fuel formed over millions of years from the remains of pre-historic living organisms, such as dinosaurs. When burned these fuels release carbon into the atmosphere, contributing to global warming and climatic changes.

Impact investments: a way to directly fund initiatives meant to enhance the social and environmental good in society.

Infrastructure investments: funding physical or organisational structures, such as wind farms, that are of use to society and/or enterprise.

Low-carbon funds: a mix of shareholdings where money is shifted between sectors listed on a public stock exchange to ensure a diverse portfolio, with low risk as a consequence. These are either managed by the institution or, more commonly, an external fund manager.

Listed equities: shareholdings listed on the stock market that are open for investment.

Reinvestment: moving money from morally ambiguous areas to those that positively contribute to society and its progression.

Return on investment/rate of return: the amount of pay back received through an investment made.

Risk: the potential financial implications of an investment, reflecting the potential uncertainty of financial returns and possible financial losses.

Social impact: the extent to which an investment positively impacts and contributes to society.

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