

SOCIALLY RESPONSIBLE INVESTMENT REVIEW COMMITTEE

Minutes of a meeting held on 28 October 2010

Ref: FIN/114/SRI

Present: Warden of Nuffield (in the chair), Professor Clark, Professor Savulescu,

In attendance: Mrs Hudspith (Secretary), Alan Macdougall (PIRC) (item 1 only).

Apologies: Pro-Vice-Chancellor (Research), Ms Tennant.

1. **Presentation by Alan Macdougall, Managing Director of Pensions Investment Research Consultants Ltd (PIRC)**

Alan Macdougall gave a presentation on pursuing responsible investment (RI) through engagements (including voting).

Engagement represented a more strategic approach to RI than disinvestment. Many investors had ceased to use exclusion as a method of achieving RI.

The most straightforward way of engaging with the companies within an investment portfolio, was to exercise shareholder voting rights. Voting might be carried out directly by the institutional investor, or, where the portfolio comprised pooled vehicles, delegated to fund managers.

The key risk associated with delegation was that the institutional investor might disagree with the way in which the fund manager exercised votes. Consequently, in reaching a decision to delegate voting, an institution might wish to develop a set of principles on key issues to guide its fund managers. Fund managers could accommodate the wishes of clients (even where a range of clients was served) by identifying the proportion of the shareholding attributable to each client and, if necessary, voting different shares in different ways. A fund manager should be able to provide a report on its voting practices. Some might routinely include such a report in its annual report. The alternative to delegation, would be to develop an internal policy and exercise voting rights directly.

Attention was drawn to the Stewardship Code for institutional investors published by the Financial Reporting Council (FRC). This Code was expected to provide a reporting framework under which institutional investors might disclose their engagement activities, including voting practices. PIRC would ordinarily recommend that, where an institutional investor elects to exercise its voting rights directly, a mechanism for disclosure is also established.

There was some discussion about the impact of SRI on investment performance. There remained some debate over the extent to which SRI decisions would enhance returns. Divestment was the most likely form of SRI decision to have a negative impact on investment return, the scale of impact would depend on the diversity of the portfolio. On engagement, research conducted by Deutsche Bank had showed a clear link between standards of corporate governance and share price performance, equity risk and profitability. However, engagement served primarily as a strategy for reducing reputational risk. The 'positive screening' approach to SRI (investing in ethical and green funds) could be used to capture good returns, but it was not clear whether the returns in these areas were maximal.

The Committee thanks Mr Macdougall for his report. [Mr Macdougall left the meeting at this point.]

The Committee discussed the issues raised by Mr Macdougall's presentation. It agreed that there was scope for the University to consider the development of a policy on engagement and voting. The first step would be to establish whether (and how) the University's voting rights were currently exercised. Consideration would be given to presenting a paper to Council on this question.

2. **Conflict of interest (SRIRC(10)07)**

The Committee **received** a report on the obligations of its members under the University's Statement of policy and procedure on conflict of interest.

3. **Minutes of the meeting held on 13 May 2010** (SRIRC(10)08)

The Committee **received** the minutes approved by correspondence in June 2010.

4. **Matters arising**

Minute 2: University investment in companies engaging in arms manufacturing

The Committee **noted** the decision reached by Council at its meeting on 21 June 2010 in response to its recommendation.

5. **Standing Orders** (SRIRC(10)09)

The Committee **considered** the draft standing orders set out in paper SRIRC(10)09. With regard to its recommendations to Council, it **agreed** that both its recommendation and an agreed statement of Council's determination should be published on its website. Subject to two other drafting amendments, the Committee **approved** its standing orders and **asked** that these be reported to Council.

6. **Introduction of a quorum for Council and its committees** (SRIRC(10)10)

The Committee **agreed** to recommend to Council that its quorum should be set at the same level as Council, that is, 'one third plus one of those members eligible to vote upon the business of the committee in question (rounded to the nearest integer)'.

7. **Date of next meeting**

The Chairman reported his intention to cancel the meeting scheduled for Thursday 25 November 2010, unless new substantive business arose in advance of that date. Thereafter, the committee was scheduled to meet on Thursday 3 February 2011, in Meeting Room 5, University Offices.

ERH

10 November 2010