**Christ Church Responsible Ownership Policy**

Christ Church's endowment is now valued at c.£550 million. This puts us in the top three in Oxford. We owe our position to our founder, generous donations, and good stewardship over the years. We aim to preserve the real value over time; to grow with good investment; and to be in a position to spend a sustainable sum each year to support our teaching and the student experience. We aim to deliver at least 4% total return after inflation each year.

Governing Body knows that we are the temporary stewards of the college's endowment. It is our responsibility to ensure that we leave future generations at least as well off as we are, whilst being in a position to spend a sustainable sum each year for the maintenance of college, provision of academic resource, and future investment in our facilities.

Whilst all investing institutions are under pressure to consider their principles of ownership, only a few institutions share our perpetual time horizon. That places on us a particular need to consider the impact of our investments on future generations too, and the sustainability of businesses in which we invest.

We recognise that companies' 'licence to operate' is increasingly scrutinised by the society in which they are embedded, and that responsible behaviour is necessary to maintain the compact between corporations, governments and consumers. Indeed, we too must be mindful of our own licence to operate. The law was once restrictive, allowing us only to take account of financial factors; recent judgements have extended the reasonable considerations that trustees may include in assessing the attractiveness of an investment, though not to the exclusion of financial criteria required to meet our own charitable objectives.

There has recently been a movement to persuade investors to disinvest from Oil and Gas companies in response to climate change; some colleges have done so. For some time, the pay of senior executives has been in the spotlight; it is now expected that owners should control excesses by exercising their voting rights to avoid gratuitous payments. In the U.K., institutional investors are expected to apply the Stewardship Code, issued by the Financial Reporting Council. It sets out how institutional investors should exercise their rights as shareholders and engage with companies. It forms the basis of similar efforts overseas; an update is due imminently.

**Terminology**

The extension of investment purpose from simply maximising returns to include other considerations has led to a multiplication of nomenclature. The terminology in circulation includes: ethical investing; socially responsible investing; stewardship; sustainability; impact-investing; environmental, social and governance ('ESG'); corporate social responsibility; sustainable ownership; and responsible ownership. There is little point in analysing in depth each of these terms, especially since each organisation seems to have an idiosyncratic interpretation.

There is also a proliferation of acronyms representing investor networks, ideals, objectives and principles. There is a Taskforce for Climate-Related Financial Disclosures (TCFD); Climate Action 100+; Transition Pathway Initiative (TPI) to assess companies' preparedness for a low-carbon economy; the 30% Club to promote gender diversity on FTSE100 boards; the PRI-a United Nations set of Principles for Responsible Investment; and UNSDG, the United Nations Sustainable Development Goals. There are many others.

The point is that this is now a complex and confusing subject.

There is some (but scant) academic work that suggests that companies with a high score in taking account of ESG factors tend to outperform those companies that do not put such emphasis on these considerations. We are aware of the shortcomings of such findings, given inevitable subjectivity in the premises (-what counts as observable good governance in the first place?).

To some extent these findings also reflect an obvious truth: that many large (listed) companies are in fact managing decline. The largest 100 companies in the UK a century ago are barely represented in today's top 100 companies. The only sector which has remained around the same percentage of the index is Banking. Coal mining is no longer represented; it has been replaced by Oil and Gas. Pharmaceuticals hardly existed a century ago. Railways were a large percentage of the index; today they barely register. Large companies get smaller; smaller or private companies are where we find many of tomorrow's stock market leaders.

Technological change has been with us since the industrial revolution. ICI has ceased to be a behemoth of British industry; but it did create Zeneca from the discovery of propofol in the 1970s, and that still exists in the form of AstraZeneca. RACAL no longer exists; but the subsidiary it created in the 1980s, Vodafone, is in the FTSE100.

More recently, the speed of change has accelerated. This reflects technological change, which companies need to be prepared to embrace in order to survive. Climate change and decarbonisation is one of multiple existential problems companies face. This does indeed necessitate good governance; better governance than even the changes of the past required.

Now we must consider in addition that will companies not survive unless they are aware of their **social impact and acceptability**; and the tolerance of society for their **environmental impact.** If there is sufficient social consensus about damaging corporate behaviour, legislators will eventually withdraw a company's licence to operate or regulate to reduce companies' profiting from poor practice; consumer behaviour may impose change even sooner. Companies relying on cheap labour (here or abroad) are vulnerable; those creating environmental externalities damaging to health should expect to bear the costs of adopting better practice and cleaning up; the ethical practices of data-gathering and use are clearly under the spotlight.

The Governing Body of Christ Church believes is that it is better if the owners – the shareholders– pre-empt and prevent the need for legislative or regulatory intervention. We share a commitment to supporting a carbon-neutral economy and sustainability more generally. We explain below how best we think we can assist in this objective, and our reasons for implementing a **Responsible Ownership Policy.**

It is clear that the challenges can be looked at positively or negatively. The positive approach is that companies scoring highly in governance should deliver superior returns, and do so over a long period of time as they adapt to a changing economy. The negative is that poor behaviour and practice will ultimately damage a company and even threaten its existence. In other words, we can look at this subject through both investment lenses: returns and risk.

The advantage of thinking about ownership in this way is that returns and risk are objective measures. It turns something nebulous into a metric, albeit not objective in the sense that any

outcome can be measured versus a counterfactual. Risk is normally measured by volatility; in this context, it is *underlying* risk, which is a matter of judgement, but one with financial implications.

We have considered the pressure on institutions to exclude some companies from our portfolios. It seems uncontroversial to suggest that we exclude companies whose activities are illegal under UK law. We agree that we should **not invest in companies manufacturing cluster munitions or land mines, for example (known as 'indiscriminate weaponry').**

The University's investment subsidiary, OUeM, has also excluded companies whose main activity is extracting oil from coal tar sands; and those mining coal. OUeM manages a significant proportion of our portfolio. **We support this policy** : it is justifiable on the grounds that there is an immediately available and less environmentally damaging alternative, so their activities appear gratuitously to add to greenhouse gas emissions; and there is a high risk that their activities will be subject to sudden legislative change. The exclusion recognises a clear risk factor.

We have also considered whether we should go further, and exclude oil and gas companies, as some colleges have done. We believe that we should share some of the considerations after a period of internal discussions.

Firstly, excluding just oil and gas producers appears to be arbitrary. If we exclude oil and gas companies, should we exclude transport companies, car manufacturers, and energy companies (who use oil and gas)? Indeed, all companies use electricity, and whilst that is generated by oil and gas, are they culpable too? Demand needs to be tackled as well as supply. We are all culpable to the extent that we consume carbon; we know that the major constraint as a consumer is a lack of viable, inexpensive alternatives (yet).

Secondly, we have a very practical concern that few investment managers currently exclude oil and gas. We would narrow the implementation options for College very dramatically. Whilst we have the benefit of relatively high impact for our size in the press, we do not have such leverage with global fund managers.

Thirdly, should we stop at climate change? Once we have accepted a moral imperative in investment, perhaps we should exclude pharmaceutical companies for using animal testing; or arms manufacturers (without which we could not have had the intervention in Iraq; but without which we could not have rescued a population from ethnic cleansing in Serbia); or tobacco companies; or alcohol manufacturers; or social media firms?

Fourthly, there is the problem of futility. Listed oil and gas companies represent around 7.5% of global equity indices. **Yet listed oil and gas companies represent just 3% of the world's reserves of oil and gas**. It seems better for the College and its representatives to put effort into persuading the listed companies to invest surplus cashflow in green energy than to abandon engagement with them when so much supply will come from state-owned entities.

Finally, we recognise that selling shares in listed companies does not make the companies smaller. What it does is to put the shares in the hands of other investors who may be somewhat less concerned about climate change than long-term endowments like us. Engaged investors can pressure the management to minimise harmful environmental effects and to invest in new technologies, which will be vital in the transition to a low-carbon economy. Primary capital-raising is a different matter, since investors are supplying capital to a company; buying or selling shares in an existing listed company has no effect on that company's viability, unless there are no ready buyers and a company's share price declines and its cost of capital rises. There are plenty of

investors who do not share a concern about climate change, including US investment houses and Middle Eastern investors. We might expect oil company ownership simply to shift towards less concerned investors, with no effect on cost of capital. The House would therefore be eschewing a core responsibility in promoting sustainability within the energy sector.

After considerable discussion and research, the Governing Body has decided to adopt a policy of **Responsible Ownership**. This allows investment in all legal activities (bar those facing the most immediate risks of legal intervention noted above); but it places on us an obligation to act as owners, taking account of our time horizon, and engaging with companies on their governance, and their sustainability (environmental sustainability being just one aspect). Our investments are not just shares; they are underlying companies.

**What does Responsible Ownership involve?**

1. Always voting at company AGMs; and voting against unacceptable practice where possible;
2. Collaborating with other shareholders to engage with companies on controversial issues or to encourage change. Few shareholders, even the largest in the world, like the Norwegian Sovereign Fund, are now big enough to make a difference acting alone when engaging with the world's biggest companies.
3. Focusing on companies' plans to survive in the long run, through anticipation of change and reinvestment of profits and training of staff;
4. Ensuring that the governance is as good as it can be, with high quality executives and non-executives. Good practice should involve demonstrable diversity of thinking on a board;
5. Engaging with companies on pay policies. It is perfectly compatible with capitalism to minimise the cost of executives to the **minimum amount necessary** to employ highly talented individuals; to ensure that there is sufficient alignment of interests between executives and shareholders; and fairness between genders. (This list is not exhaustive.)
6. We will not invest in cluster munition or land mine manufacturers, or firms deriving their profits from coal tar sands extraction;
7. If engagement fails, or if the company is resistant to change, there is always the option of selling shares and moving capital.

The college ceased to own individual equities in 2018, partly in response to the extra burdens of responsible ownership. Whilst it is conceivable that we will in future own directly listed companies, we currently own shares indirectly via fund managers, consisting of a combination of listed investment trusts, and Oxford University Endowment Management.

In practice, therefore, our principles should be applied as a way of assessing the ownership policies of our managers. Managers should have a policy of voting and engagement which mirrors the college's adopted policy as closely as possible.

We can also take positive investment action. Last year we became a founder investor in a fund which has invests in liquid diversifying assets, many of which are in clean energy, water, forestry and other sustainable investments. It has a strict policy of assessing all investments on sustainable criteria. Whilst this investment has a desirable policy, it was chosen because it still met our strict return objectives. We cannot abandon financial criteria. Further such investments can be considered.

**Responsible Ownership and Land**

Governing Body's policy above refers to listed or liquid investments. We have substantial legacy investments in land in the UK. In recent years, college has broadened our portfolio in co-operation with other colleges, to include new land held for development, beyond what we have inherited from previous generations. The vehicles used to achieve this are not listed and we , along with other college shareholders, have some considerable influence on the managers.

Development land raises its own very specific issues. Where do we develop? What is the environmental impact? Are there sufficient affordable houses? What building techniques and designs will make a positive contribution to the country's built environment?

**Governing Body is considering these questions in detail and will in due course publish a policy for land**.