

University of Melbourne Responsible Investment Guide

Overview

The University of Melbourne's purpose is to benefit society through the transformative impact of education and research. To achieve its purpose and support current and future generations of students, both the University and its activities need to be sustainable¹ as detailed in the University's [Sustainability Plan 2030](#). The prudent and responsible investment of the University's accumulated financial resources and funds donated to the University underpin the activities of the University to enable it to achieve its purpose.

The University's investment model for its financial assets is predominantly outsourced consistent with the University's investment scale and focus on leadership and excellence in education, teaching, and research. Importantly, the University retains strategic decision-making responsibility, with investment strategy implementation supported by specialist advisers and external investment managers.

The University's Implemented Consultant provides strategic investment advice to the University and implements most of the investment strategy on behalf of the University through external investment managers. The University's treasury team separately manages financial assets associated with the working capital of the University. The University, the Implemented Consultant and the external investment managers all play an important role in the responsible investment of the University's financial assets as detailed in this Responsible Investment Guide (Guide).

The University's overall investment approach for its financial assets is documented in the University's Investment Governance Framework, with this Guide detailing specific responsible investment considerations relevant to the management of the University's financial assets. The University's requirements including the various reporting obligations, along with the monitoring and review processes, are documented between the University and the Implemented Consultant. At the external investment manager level, the Implemented Consultant has documented arrangements with each external investment manager and investment, detailing its requirements and expectations, along with review processes. The governance processes, including clear responsibilities and accountabilities at each level are important to support the prudent and responsible investment of the University's financial assets on an ongoing basis.

Commitments

The University's commitment to responsible investment and sustainability more broadly is outlined in its *Sustainability Plan 2030* and includes the following two responsible investment targets:

- Include the University's investment portfolio² in its commitment to be climate positive by 2030
- Provide enhanced transparent reporting of the University's investment portfolio

¹ Sustainability requires "meeting the needs of the present without compromising the ability of future generations to meet their own needs." See the *Sustainability Plan 2030* for a more detailed explanation.

² This will include investments in the University's portfolio for which the carbon footprint can be reasonably measured or estimated.

The University is committed to including its investment portfolio in its scope three emissions³ reporting and climate positive commitments by 2030. This commitment is far-reaching and impactful, as it addresses carbon emissions across the investment portfolio as part of the University's overall commitments, recognising its impact on sustainability outcomes and its commitment to responsible investment. The timeline of this target reflects the ambition and complexity of the University's climate leadership commitments, and the need to manage their implementation.

The University is a signatory to the United Nations Principles for Responsible Investment (PRI) since 2020. As a signatory, the University is committed to incorporating environmental, social, and governance (ESG) issues into investment analysis, decision-making processes, and ownership policies and practices. The University is also committed to being an "active owner"⁴, seeking appropriate disclosure on ESG issues by the entities in which it invests, and reporting on its activities and progress towards implementing the principles for responsible investment. At the investment level, external investment managers determine the preferred "active ownership" strategy and execute the strategy accordingly, with subsequent reporting to the Implemented Consultant and then the University.

Investment beliefs

The University's investment beliefs describe the University's high-level views on investing its financial assets and are documented in the University's Investment Governance Framework. The beliefs help guide its investment decisions and shape its investment strategy. The sub-set of beliefs which are specifically relevant to the responsible investment of its financial assets are summarised below.

The University's **predominantly outsourced investment model** is consistent with the University's investment scale and focus on its core activities of education, teaching, and research. The University views that specialist advisers and external investment managers are better resourced with appropriate expertise and understanding at the individual investment level to responsibly assess and engage with the stewards of individual investments to deliver responsible investment outcomes for the University. These service providers also have greater scale amplifying the influence at an individual investment level on responsible investment outcomes relative to what would be achievable by the University independently.

Sound governance arrangements, including those pertaining to responsible investment considerations are of high importance to the University and enhance its ability to achieve its investment objectives. These governance arrangements include appropriate monitoring and review of responsible investment activities and associated reporting and are discussed later in this Guide.

Consistent with the University's purpose to benefit society and support current and future students, its **primary focus is to maximise its investment return for an acceptable level of potential downside loss**, including risks and opportunities pertaining to ESG factors. More broadly, the University believes that organisations that effectively manage risk and opportunities, including ESG factors should deliver better risk-adjusted returns over the long term.

Active investment management (relative to buying a portfolio of securities defined by a benchmark index) is preferred where there is confidence in its potential to improve investment outcomes (net of costs) but requires a long-term time horizon and is not certain. Capital can then be allocated to

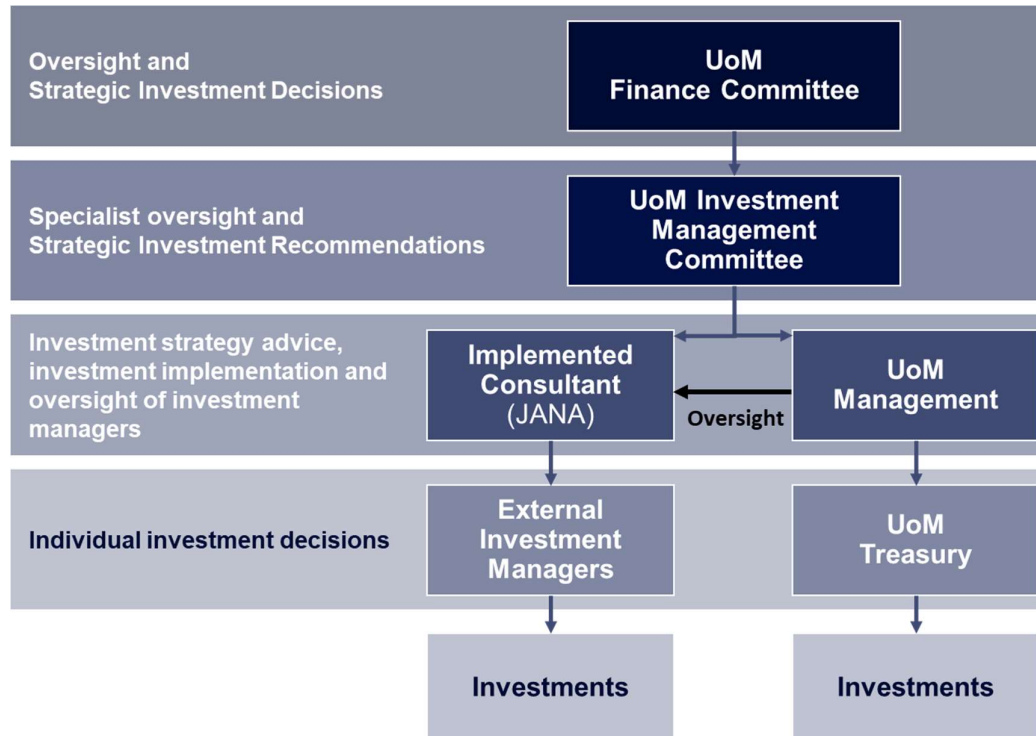
³ Carbon emissions associated with investments are scope 3, or indirect, emissions. An organisation's scope 3 emissions from investments are the scope 1 and scope 2 emissions of their proportional share of investees.

⁴ The PRI defines active ownership as the use of the rights and position of ownership to influence the activities or behaviour of investee companies.

investments considered to have the best return prospects allowing for the inherent risks, including ESG considerations.

The University is supportive of **engagement over divestment**, and active shareholder engagement including the exercise of proxy voting rights is viewed as having an important and valuable impact on corporate decision making and sustainability of the underlying investments of the University.

Governance, roles, and responsibilities



The University’s Finance Committee exercises governance responsibilities over the financial and business affairs of the University. The University’s internally and externally managed financial assets are overseen by its Investment Management Committee, a sub-committee of Finance Committee. The Investment Management Committee makes strategic investment recommendations to Finance Committee and is responsible for strategic implementation of these decisions.

The University’s Implemented Consultant advises on investment strategy and then implements most of the investment strategy through external investment managers. The balance of shorter-term financial investments is managed by the University’s internal treasury team. The University’s Implemented Consultant selects external investment managers, and the external investment managers manage sustainability and responsible investment considerations at the individual investment level.

JANA Investment Advisers is the University’s Implemented Consultant. JANA has a long history of successfully providing investment consulting and management services in Australia and include systems-level sustainability considerations into investment decisions. The Implemented Consultant’s responsible investment related credentials and capabilities were considered during the process of selecting and appointing the implemented consultant and are subject to ongoing review.

The University, the Implemented Consultant, and the external investment managers all play an important role in the responsible investment of the University's financial assets as detailed in this Guide and more broadly in the University's Investment Governance Framework.

The Implemented Consultant is required to report on its responsible investment related activities on behalf of the University. Reporting includes details of ESG risk integration, carbon footprint reporting, investment holdings disclosure, active ownership reporting, and class action participation, for asset classes where more reasonable data is available (see section on Reporting). Any material responsible investment matters identified by the Implemented Consultant or requested by the University are also covered in reporting. The Implemented Consultant is also required to report on the development of its responsible investment related capabilities and broader activities on a regular basis as part of the review of the Implemented Consultant (currently every 18 months). Reporting is reviewed by University Management and the Investment Management Committee.

In turn, the Implemented Consultant is responsible for the ongoing assessment of the responsible investment capabilities and activities of the external investment managers, and the external investment managers are responsible at the individual investment level. This is discussed later in this Guide.

The University ensures that its team, including the University itself, Implemented Consultant, and external investment managers, possess a diverse range of skills and experience to fulfill governance responsibilities effectively. This includes proficiency in Environmental, Social, and Governance (ESG) factors among other necessary skills.

Investment objectives and strategies

On an annual basis, the Implemented Consultant undertakes a review of the investment environment, highlighting and further considering key "structural" investment themes. These themes are orientated around potential major economic and social changes expected to influence investment outcomes for up to the next 10 years. The Implemented Consultant's 2023 review included two specific sustainability-related structural themes: stakeholder capitalism and energy transition.

The potential implications of these themes on capital market assumptions and investment portfolios are considered. The capital market assumptions are important inputs to the development of the University's investment objectives and strategic asset allocation for each investment portfolio. The Implemented Consultant's capital market assumptions are described as "climate aware" in that they incorporate the potential impacts of climate change on capital markets.

The Implemented Consultant also conducts climate change scenario modelling to "stress" the investment portfolio under different policy regimes and their indicative temperature outcomes. This analysis is considered by the Investment Management Committee typically annually in its review of strategic asset allocations, and any changes are recommended to Finance Committee for its approval. The chosen investment objectives and asset allocations are based on a range of considerations including climate change scenarios and supported by stress testing and risk analysis.

Investment implementation

The investment strategies are implemented by external investment managers. External Investment managers are viewed as having the deepest insights into the investments and the complex responsible investment issues. Thus, they are best placed to actively engage with the stewards of the underlying investments, with portfolio level oversight by the Implemented Consultant.

Investment managers are facilitating exposure to the investments on behalf of multiple clients. This aggregation creates scale and amplifies their influence to drive more sustainable investment outcomes for the University and the investment managers' other clients. Similarly, the Implemented Consultant's broader scale amplifies its influence with investment managers and the broader investment community.

The Implemented Consultant considers the responsible investment related credentials and capabilities of investment managers as part of the appointment process. On an ongoing basis (typically at least annually), the external investment managers are required to report on the development of their capabilities and responsible investment related activities. This reporting is reviewed by the Implemented Consultant, and if deemed appropriate by the Implemented Consultant or requested by the University further information is reported to the University's Investment Management Committee.

Assessment

The Implemented Consultant assesses external investment managers on their ESG credentials across five pillars:

- **Governance, strategy, policy:** Organisational level commitment to ESG integration
- **ESG integration:** ESG risks and opportunities being demonstrably managed as part of the investment approach, including the quality and use of ESG research
- **Climate change:** Quality of research and level of integration of climate change risk and opportunities in investment decision making, ongoing management of directly held assets (where relevant), climate change related policies, and reporting
- **Engagement & Proxy Voting:** Quality and depth of the investment manager's corporate engagement program for listed equities and credit including the consistency of the engagement approach with investment beliefs
- **Reporting:** Quality and depth of reporting on ESG

The assessments cover a broad range of sustainability considerations as appropriate such as climate change, modern slavery (supported by an annual investment manager questionnaire), diversity, equity and inclusion, and corporate engagement including proxy voting.

These assessments are amongst a range of factors considered by the Implemented Consultant in its role in supporting the University's primary goal of maximising its investment return for an acceptable level of potential downside loss, whilst being consistent with the Responsible Investment Guide. The Implemented Consultant requires appointed external investment managers to have sound sustainability practices to be initially appointed and retained on an ongoing basis. Investment managers need to manage ESG factors and any potential risks and opportunities that may arise and incorporate these factors in investment analysis and decision making, where appropriate.

It is important to appreciate that responsible investing has evolved at a different pace in each asset class. The level of sophistication of external investment managers and the underlying investments, as well as the availability of data and reporting, are two examples of what can be material differences between asset classes. As such, the external investment manager assessments are relative to comparable investment manager strategies in the relevant asset class or sub-asset class.

On an ongoing basis, the Implemented Consultant monitors appointed external investment managers to assess their management of ESG factors within investment portfolios. Appointed external investment managers must maintain appropriate processes that enable them to manage ESG factors to be retained as an external investment manager. The Implemented Consultant has developed a separate Net Zero investment manager assessment framework focused on evaluating an external

investment manager's Net Zero ambitions and credentials. Similar to the ESG investment manager assessments, the Implemented Consultant monitors appointed external investment managers to assess their commitment to and management of "net zero" within the investment portfolios managed for the University.

Note, some external investment managers and investments were transferred from Victorian Funds Management Corporation's (VFMC) management to JANA's management in 2022. These investments underwent due diligence initially with VFMC. JANA makes reasonable endeavours to apply the processes outlined in this Guide to these external investment managers and investments, yet it is not always possible reflecting the nature of the investments or the external investment managers (e.g. investments in wind down).

Active ownership

The University believes that the exercise of proxy voting rights has an important and valuable impact on corporate decision making and sustainability, the Implemented Consultant facilitates the exercise of proxy voting rights.

- In relation to Australian shares, a consistent stance is typically taken across the portfolio of external investment managers supported by specialist advisers. Certain contentious issues may also be escalated to a specialist committee of the Implemented Consultant for its consideration.
- For international share portfolios, responsibility is typically delegated to the external investment manager given the breadth of investments including different regulatory environments and requirements.

The University prefers engagement to divestment, to provide the best opportunity to generate responsible investment outcomes and genuine change, with this engagement implemented by the external investment managers.

Reporting

The University is committed to providing transparent reporting on its investment portfolio as part of its overall sustainability plan, with the initial reporting to include the following:

- Disclosure of the University's top 20 listed equity holdings as a percentage of the total listed equities holdings
- Sector exposures
- Estimated carbon emissions

A key challenge with responsible investment reporting is the breadth and consistency of data available from data vendors to support quality reporting. This includes data on proxy voting and other engagement activities. The University is committed to evolving its reporting as available data improves.

The initial reporting is included in the [Sustainability Report 2022](#) and focused on listed Australian and International Equities, where more reasonable data is available. The initial University reporting estimated the University's financed emissions using the 'Enterprise Value Including Cash' (EVIC)⁵ method, which measures the University's share of a company's emissions proportional to the

⁵ Financed emissions are measured using 'Enterprise Value Including Cash' (EVIC) allowing measurement of an investor's share of emissions proportional to its exposure to the investee's total value. EVIC is defined as the sum of the market capitalisation of ordinary shares at fiscal year end, the market capitalisation of preferred shares at fiscal year-end, and the book values of total debt and minorities' interests. No deductions of cash or cash equivalents are made to avoid the possibility of negative enterprise values.

University's investment in the company's total value. This method aligns with the guidance from the Paris Aligned Net Zero Investment Framework and the Task Force on Climate-related Financial Disclosures (TCFD).

This 2022 data provides a baseline, enabling a better understanding of the carbon impact of the University's investment portfolios. Financed carbon emissions levels are important for understanding the scale of the problem and prioritising actions to reduce emissions over time. However, reviewed in isolation, they are a blunt tool that does not consider whether the underlying businesses have committed to getting to zero emissions and reducing emissions in line with feasible sector decarbonisation pathways. The data can also be 'noisy,' so focus will be on the overall trend rather than any one year's data.

Collaboration

Responsible investment is a rapidly evolving field consistent with the urgency of issues such as climate change. Responsible investment is also an area that requires collective action to achieve genuine outcomes. As such, it is important for the University and its service providers to act as "global citizens," collaborating and collectively enhancing capabilities and contributing to the development of more sustainable investment outcomes.

As detailed in the University's *Sustainability Plan 2030*, the University extensively contributes to the development of sustainability via its research and other activities, such as Melbourne Climate Futures' Sustainable Finance Hub. In relation to the investment of its financial assets specifically, the University is a Principles for Responsible Investment (PRI) signatory and collaborates with other institutional owners via the PRI. The PRI's principles are:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each year report on our activities and progress towards implementing the Principles.

The Implemented Consultant has a specialist internal Sustainability Team supported by a Sustainability Advisory Council, with members of the latter primarily external to the organisation to provide broader experience and different perspectives. JANA is also a PRI signatory, and a member of the Responsible Investment Association of Australia, the Investor Group on Climate Change, and Australian Sustainable Finance Institute. JANA was an inaugural signatory to the Net Zero Investment Consultants Initiative, a pledge by global investment consultancy firms to support the goal of net zero greenhouse gas emissions by 2050. JANA is also a Climate Active carbon neutral certified organisation.