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Ethical Framework for Financial Transactions - Investments and Strategic Relationships

Introduction

This Ethical Framework for Financial Transactions (EFFT) sets out the approach to investment, funding and strategic relationships, ensuring that decisions taken by the University are consistent with our mission and values. This Framework adheres to Charity Commission Guidance (CC14). Our goal is to ensure that every decision not only generates financial benefits but also contributes to positive social and environmental outcomes. In the self-same manner, strategic relationships that the University enters into should be able to withstand an equal level of scrutiny.

For context, the University's financial decisions, in general terms, should:

- Seek to maximise total return on investments (capital and income) whilst containing risk to an acceptable level;
- Maintain a profile of investments needed to fund future developments;
- Maintain the value of any general and endowment funds, after taking account of inflation (as a minimum) over the long term;
- Generate income streams;
- Generate benefits from joint ventures and spinouts through reputational enhancement, commercial impact and research;

- Drive environmental and social impact; and
- Engage with assets managers and markets.

The asset allocation of any investment and funding portfolio is based on a medium risk strategy, designed to increase the value of the portfolio over the longer term. Any investments held must have regard to normal charity ethical standards, and follow guidance as set out by Charity Commission guidance, CC14 whilst considering environmental, social and governance (ESG) factors alongside the financial metrics when determining the suitability of investments, as well as our University's values.

In relation to spinouts and any related companies, the University will usually own any unfettered intellectual property (IP) arising from the research its academics undertake. The University will seek to identify, protect, develop and seek a commercial return from any such University IP.

The two main routes for commercialisation are licensing to an unrelated third party or licensing into a joint venture or spin-out company. The University's approach is set out in the YSJ Innovation and Enterprise Policy.

Our Ethical Investment Approach

The University is committed to ensuring that it makes investment decisions on a responsible basis. The University will optimise any investment returns whilst recognising its fundamental ethical and social responsibilities. The University's approach is set out in the Treasury Management Policy (TMP) which is reviewed annually by the Finance and Capital Development Committee.

Recent changes to the TMP enable the University to explore investments with demonstrably strong social benefits, even in circumstances that may, on balance, result in relatively higher risks or lower returns, which may include, for example: affordable housing projects; renewable energy and green infrastructure; community health and wellbeing projects; social enterprises and start-ups; and empowerment and employment programmes.

Priority Areas

We will extend our strong preference to sectors that make a demonstrable social impact and encourage partnerships with companies aligned with ESG. Using our influence as an Investor we commit to:

- Encouraging just and sustainable business practices;
- Promoting equality of opportunity, diversity, decent work, and fair pay;
- Advocating for responsible tax practices and corporate lobbying;
- Supporting climate and social justice initiatives locally, nationally and internationally;
- Enforcing transparent escalation with non-compliant firms; and
- Providing transparent, accessible public disclosures.

Additionally, we will always support meaningful participation of our student and staff representatives in governance. The University will also avoid investment partners that risk harming the Institution's reputation by association, even if they have scope to be financially beneficial.

Investment and Funding Exclusions

This EFFT is based on the premise that the University's choice of where to seek funds and to invest should strongly adhere to its existing ethical values. This same approach will apply to any external organisation wishing to enter into a strategic relationship with the University. To this end, the University, or any appointed Investment Manager, will not transact with organisations or partake in activities where the primary part of the business involved clearly demonstrates:

- The manufacture and sale of armaments to non-governmental military regimes;
- Unacceptable greenhouse gas emissions or environmental damage;
- The extraction of fossil fuels including but not limited to coal, oil, and natural gas;
- Institutional violations of human rights, including modern slavery, forced labour and the abuse of workers' rights;
- Discrimination against the rights of individuals in relation to race, gender, sexuality, or any other protected characteristic, and including the exploitation of women and girls;
- The manufacture and sale of tobacco products;
- High-interest rate lending;
- Gambling or industries which benefit from the proceeds of gambling;
- Gross corruption or financial crimes; and
- Other serious violations of fundamental ethical norms.

The above list is non-exclusive. Furthermore, the University will not transact with Governmental bodies, or any other organisation, under sanctions endorsed by the British Government.

The University also recognises that there may be eventualities where potential investment partners participate in a range of activities, with both desirable and problematic outputs. Where such conflict is identified, the University will seek to make a balanced judgement on whether the potential for net societal impact is outweighed by the risk of negative consequences that could contradict the Institution's ethical stance. If a plausible timeframe for resolving such conflict cannot be determined, then it is the position of this policy that the University will elect not to pursue such relationships.

Monitoring

The University will establish a monitoring group which will meet bi-annually consisting of representatives from relevant departments.

The monitoring group will: receive compliance reports from external fund managers; conduct annual audits of all investment portfolios to ensure compliance with ESG criteria and University values; provide recommendations for corrective actions if discrepancies are identified, including divestment where necessary; and report findings to Executive Board.

Action against funding, partner or supplier misaligned with our mission

If engagement fails, we will remove any organisation from our portfolio that operates in a manner contrary to the values of this University. Our financial activities will be continually refined to align with our mission, engaging closely with companies and fund managers.

Disposals of shares in spin-outs and other shareholdings

Divestments in any spin-out companies will be made based on advice supported by the Board of Governors unless the investment in the spin-out has been listed on a stock market, in which case independent advice may be sought thereafter. All divestments will be approved in line with limits set out in the Schedule of Delegated Financial Authorities.

For other shareholdings, the opportunity to dispose of shares arises in four main ways:

a) Entire shareholding is acquired via trade sale for cash or shares in the acquirer.

b) Consideration for acquisition is in the form of a mix of cash and shares in the acquirer.
c) Partial exit opportunity through third party acquiring some shares in non-quoted vehicle.
d) Shares can be traded openly or placed on the market once a company has floated, and all lock-ins have expired.

For (a) and (b) the decision is made by a majority decision of the shareholders, and the University will need to fall in line with the majority decision although it may be prudent to advise if we feel that the terms of a deal could be modified or improved.

For (c), the opportunity offered should be considered after taking into account the future prospects of the company, the cash requirements of the University and any reputational benefit to the University in retaining an equity stake. The University may decide to sell some or all of its shares.

For (d), as a general principle, the University should normally look to dispose of shares in such quoted companies within three to five years of the shares being derestricted, taking into account all factors detailed above.

Strategic Relationships

The EFFT encompasses within its scope all strategic relationships, recognising their critical role in upholding the University's integrity and values. Strategic relationships, including partnerships, collaborations, and other long-term engagements, must be governed with the same ethical rigor and transparency as financial transactions. These relationships should align with the University's commitment to social responsibility, sustainability, and ethical conduct, ensuring that all external affiliations reinforce and reflect all wider institutional principles.

Other investments by third parties

The Local Government Pension Scheme (North Yorkshire Pension Fund - NYPF) and the Teachers' Pension Scheme (TPS) are both in operation at the University. Funds invested via these third parties are managed by the trustees of each scheme, independently. The NYPF has a published a Responsible Investment Policy, prioritising Environmental, Social and Governance considerations which is consistent with this policy. The University will pro-actively monitor the reports of the trustees and lobby accordingly should this be required.