Royal Northern College of Music
Ethical Investment Policy
Policy
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RNCM
ROYAL NORTHERN COLLEGE of MUSIC

1. Introduction

The College, consistent with its values and as set out in its strategy 'The Future of Music', is fully committed to acting in a socially responsible manner and training musicians who are socially-aware. This policy sets out the principles for Responsible Investing (RI) that includes consideration of Environmental, Social and Governance (ESG) issues relating to all investment decisions.

The Awards and Endowment Funds' (the Funds) investment portfolios are made up of endowment funds, i.e. gifts from donors intended to be held on trust to generate a return, usually for specific purposes within the College. The Funds invest these funds across a range of asset classes, including public equities, private equity, property and cash.

The College's Investment Sub-Committee, chaired by a lay member of the Board of Governors, reports to the Finance Committee. Responsibilities include appointing Investment Managers and monitoring performance, considering changes in investment strategy and target asset allocations.

Monitoring on ESG issues within the investment portfolio is mandated to be provided by the College's investment managers. In the period since the adoption of this policy, the reporting available in this area has grown exponentially as companies and markets grow and develop their own reporting. As such, tracking any meaningful portfolio-wide KPIs has been problematic but should become easier as

This Policy enhances provisions in the Investment and Treasury Management Policy.

2. Update on progress around decarbonisation since adopting this policy in 2020

The following were the stated objectives and targets for the period 2020-22 with an update on progress towards them and updates for 2022-27:

1) Reducing potential emissions from fossil fuel reserves in the public equity allocation by 99% compared to the base year.

Achieved.

2) Reducing the Carbon Emissions per $m invested from the benchmark of 45.4 at October 2020.

KPI has worsened as more of the portfolio is covered by ESG reporting. As at 30th September, this figure is 52.7 tCO2e per $m invested but we now have 99.5% of the portfolio covered in terms of Carbon Emissions Data (compared with 65.5% coverage in October 2020).

3) Reducing the Weighted Average Carbon Intensity of the investment portfolio from the benchmark of 95.0 at October 2020.

KPI has worsened as more of the portfolio is covered by ESG reporting. As of 30th September, this figure is 132.4 tCO2e per $m invested but we now have 99.5% of the portfolio covered in terms of Carbon Emissions Data (compared with 65.5% coverage in October 2020).

4) The College, guided by our investment managers, will form a view on decarbonisation of all assets classes beyond public equities by the end of financial year 2021/22 and will develop mechanisms to evaluate progress.

Target to move to end of financial year 2022/23.

5) The College will periodically review the suitability of its approach and targets, for example in view of any commitments to exceed the current 2038 zero carbon target or as a result of any improvement in carbon measurement and monitoring methodologies for investors.

Target remains and progress towards this to continue being monitored.

6) The College will review opportunities across all asset classes to reduce the College's reliance on carbon sensitive assets as well as investing into climate solution opportunities arising from the low carbon transition in the local and the global economy.

Target remains and progress towards this to continue being monitored.

7) Before the end of the immediate term in 2022, the College will set new targets for the medium term
(2023-27) which enable transition towards the long term target of net zero carbon emissions by 2038 or earlier.

Taking the current 52.7 tonnes of CO_2 per $m and working towards a zero target by 2038, we will assume linear progression for the purpose of medium term target setting. By 2027, the target emissions per $m invested should be 36.2 tCO_2e per $m invested to be on track to achieve net zero in 2038. Progress towards this should be reported on annually.

3. Ethical and Environmental, Social and Governance (ESG) Issues

The College is particularly concerned about a number of key Ethical and ESG issues. Investment in businesses materially interested in those activities listed as Ethical Restrictions below will be prevented through an ethical screen. For the factors in the ESG list, we will continue to adopt investment strategies that seek to minimise or, ideally, eliminate investments in companies with corporate behaviour leading to those factors.

Ethical Restrictions	**ESG Considerations**
Manufacture of controversial weapons, including cluster munitions, landmines, biological and chemical weapons, nuclear and depleted uranium weapons	Environmental degradation and climate change (more detail in Section 3 of this Policy)
Tobacco production, cultivation and manufacture	Human rights violations
Breaches of the UN Global Compact	The institutionalisation of poverty through discriminatory market practices
	Racial or sexual discrimination
	The exploitation of workers
	Giving or receiving of bribes

For Ethical Restrictions, or where specific criteria are defined (e.g. decarbonisation) in the investment process, exclusionary screening criteria will be used to address the above issues.

Where it is not possible to define screening criteria for a particular issue which can be used by investment managers, a monitoring and stewardship approach will be adopted, whereby investment managers will be expected to report to Investment Sub Committee on ESG issues, engagement and voting activity.

The primary metric to be used in ESG reporting will be the MSCI ESG Rating of the portfolio. This should be **at least at AA rating**, putting the portfolio within the Leader category. **The baseline ESG Quality Score at October 2020 was 7.75 for the portfolio and ideally this should improve and certainly not worsen**.

4. Decarbonisation: Action on climate emergency – zero carbon transition by 2038 or earlier

Climate change is probably the most important issue facing the world today, and the College recognises the climate emergency declared by the UK Parliament and the City of Manchester. In fact, Manchester as a city has targeted being a zero-carbon city by 2038 or earlier, at least 12 years ahead of the current national target of 2050.
Consistent with this, and as part of our commitment to being an active part of the City, the College explicitly commits in this Policy to actively decarbonise its investments so that its investment portfolio reaches zero carbon by 2038 (the 'long term' target) or earlier if we can. The chosen target is ambitious in comparison to national level targets and actions of other organisations which have focused largely on one aspect of carbon emissions, and ensures that the College investment portfolio will undergo a significant transformation over the coming years as a result. This transition will be a key focus of the Finance Committee, reporting to the Board of Governors.

The baseline MSCI Carbon Portfolio Analytics at September 2022 show the College's investment funds carbon footprint to be at 52.7 tonnes of CO_2 per $m invested. This compares favourably with the balanced index of 101.8 (with 99.5% coverage). The **weighted average carbon intensity of the portfolio stood at 132.4 against a balanced index score of 166.4.** This shows that the investment portfolio is currently relatively positive in terms of its carbon footprint compared with an industry average. We still want to improve however and the targets and commitments below show how this will be achieved.

For the medium term 2022-27 the College sets the following decarbonisation targets and commitments:

1) The College will continue to not hold investments in fossil fuel extracting companies
2) The College will target the Carbon Emissions on its investments as measured in tCO_2e/$m invested to reduce below 36.2 by the end of 2027 from the benchmark of 52.7 in 2022.
3) The College, guided by our investment managers, will form a view on decarbonisation of all assets classes beyond public equities by the end of financial year 2022/23 and will develop mechanisms to evaluate progress.
   The College will review opportunities across all asset classes to reduce the College's reliance on carbon sensitive assets as well as investing into climate solution opportunities arising from the low carbon transition in the local and the global economy.

5. Investment Managers and Reporting on ESG and Decarbonisation

The College employs Investment Managers to manage its investment portfolio. In line with commitments in this policy, **the College will only employ Investment Managers who are signatories of the United Nations Principles of Responsible Investment (PRI).**

The College requires reporting to its Investment Sub-Committee by its Investment Managers to include reporting explicitly on the ESG and Decarbonisation targets and requirements in this policy. On ESG issues, this will be primarily the MSCI ESG Ratings system and for Carbon analysis, the MSCI Carbon Portfolio Analytics method (although other systems or reporting may also be requested and used).