

## **The Massey University Foundation's approach to responsible investment Dec 2017**

### **Background**

As public awareness of where private and public savings are being invested grows, large investors like cities, universities, pension funds, and other institutions are being asked by their stakeholders to consider whether investments meet their ethical or moral obligations and to adopt a particular position on investments across a range of industries including more contentious sectors such as tobacco, gambling, alcohol, pharmaceuticals, fossil and nuclear fuels, and weapons.

This has led to a range of public and private institutions divesting themselves of investments to not only meet stakeholder and shareholder objectives but to leverage the goals and values of their institutions.

Responsible investing is not new and individuals, groups and families have long-tailored investment portfolios to suit their morals.

The challenge for charities like the Massey University Foundation is not only deciding what is, and what isn't a moral or ethical investment, but how far-reaching this is in application, how we police this, and the ramifications on the income available for research and scholarship if we withdraw from these investments.

For example, would we consider investment in a cereal manufacturer that uses genetically modified wheat in its product? Similarly, we could invest in a meat producer that uses animals with high antibiotic use or a highly profitable clothing manufacturer which might have a poor record of human rights, and the list goes on.

A simple approach to ethical investing is to screen funds and enforce blanket bans on firms focussed on profiting from activities such as alcohol, gambling, tobacco and fossil fuels.

Such screens tend to target an industry or product and can be crude and subjective. For instance, bans like this do not take account of broader responsibilities, ethics and governance. Issues like workplace safety, human rights, supply chain management, investment in communities, or gender diversity.

The potential shortcomings of a blanket screening approach can be seen in the example of social media, which has given rise to harassment and bullying by online 'trolls', it is also a channel used by terrorists to promulgate propaganda and publicise disturbing terrorist activities, yet it remains a popular choice for investors and is a well-used and loved communication channel for many individuals and communities.

Alignment with the University is also a consideration for the Foundation. For instance, Massey University has long had a microbrewery (used by its food technology students) on its Manawatu campus. The teaching of veterinary medicine requires the use of animal cadavers, and its aviation degree is a high user of fossil fuels.

Additionally, if the Foundation were to enforce blanket bans, it would likely have to reconcile this with areas where it was prepared to receive donations. The Foundation has accepted donations from Shell NZ Ltd, the New Zealand Army, Lotteries and several pharmaceutical companies.

## The Massey University Foundation's approach to Responsible Investment

Rather than adopt any form of blanket ban, the Board of the Massey University Foundation has elected to approach investing using the Environmental, Social & Governance (ESG) principles set out by the [United Nations' Principles of Responsible Investing](#). These Principles are outlined below:



Investing using ESG principles isn't about avoiding stocks in a certain industry, instead it's about incorporating such principles into investment decisions with the goal of improving the long-term interest of markets, economies and ultimately society.

For example, instead of banning investment in alcohol companies, an ESG approach may ensure a company does not have a record of marketing to minors.

Similarly, rather than excluding fossil fuels, an ESG approach might recognise those companies which place greater emphasis on minimising pollution, engaging with communities and sharing profits.

In the case of social media, looking at the specific steps a provider has taken to limit harassment, stop the posting of disturbing material and ensure user security and safety.

Investing using ESG principles is increasing rapidly and according to the latest Responsible Investment Benchmark Report (published August 2017) the total amount of investment in NZ that is responsibly investment has reached \$131 billion in 2017, up from \$78 billion in 2015.

The Foundation's current fund manager, Nikko Asset Management, adheres to the United Nations ESG principles. Nikko AM was an early adopted of ESG and became a UN Principles for Responsible Investment (PRI) signatory in 2007. More information on Nikko AM's approach to UN PRI can be found on <https://www.nikkoam.co.nz/about-us/responsible-investing>.

Sources:

- This document can largely be attributed to: *Ethical Investing – whose ethics are we talking about?* by George Carter, Managing Director, Nikko Asset Management New Zealand Limited, published online June 2017
- Responsible Investment Association Australasia (RIAA)
- <http://responsibleinvestment.org/resources/benchmark-report/new-zealand/2017-report/>
- <https://www.nikkoam.co.nz/about-us/responsible-investing>

