The views provided reflect our thinking at a point in time. Sustainability is a journey, and we keep adapting our approach to be as effective as possible, based on the latest research and in dialogue with the LSE community.

How can LSE investments support the transition to net-zero carbon?

LSE uses a range of tools as part of our investment decisions to maximise the impact we can have incentivising the transition to a low carbon economy.

The School manages in the region of £200m of funds originating from grants or donations, referred to as the School's 'endowment'. Environmental, Social and Governance (ESG) factors are a key aspect of LSE's investment decisions in managing these funds, as part of our Socially Responsible Investment policy established in 2005.

Unlike some universities with larger endowments, LSE does not invest directly in companies. Instead LSE invests in funds, made of a mix of assets, and managed by external Fund Managers on behalf of many clients. As a result, direct action by LSE to exclude investment in specific companies is not possible.

Instead, LSE takes actions to actively engage Fund Managers on sustainability issues, as part of our on-going dialogue with them and our annual evaluation of their performance. We also engage with Fund Managers to minimise our indirect investment exposure to companies linked to thermal coal and tar sands, the most polluting fossil fuels. This approach is a form of divestment known as negative screening.

When it comes to fossil fuels generally, or more importantly carbon emissions, negative screening has severe limitations since **carbon is threaded throughout our economy**. While **supply** comes in large part from fossil fuels production, **demand** comes from many sectors including transport (e.g. airlines), construction, agriculture, etc. Tackling both supply and demand aspects of the economy are equally important when mapping a pathway to decarbonisation.

What is an effective way for LSE to promote change and incentivise the transition to a low carbon economy through its investment practices? Adopting a negative screening approach to entire industry sectors is not practical when investing in funds. More importantly it does not recognise companies making genuine efforts towards a net-zero transition, or the fact that all industry sectors need to transition. We can make a greater impact rewarding good corporate behaviour on climate change, in turn encouraging more companies to adopt business models aligned to climate science and transitioning.

Assessing companies' preparedness for the transition to a low carbon economy can be done using the Transition Pathway Initiative, a tool developed by the *Grantham Research Institute on Climate Change and the Environment* at LSE. To maximise our impact, and as described in our new Sustainability Strategic Plan, LSE will use TPI and similar tools to further encourage Fund Managers to embed climate change issues in their company selection and engagement work with companies. Leading on this work is LSE's Investment Sub-Committee, made of LSE staff, external advisers, and student representatives.

Further resources

- Sustainability Strategic Plan – Investment section
- LSE's Socially Responsible Investment policy
- LSE Financial Statements - 2018-19, Responsible investment section, page 38-39