WORKING GROUP ON INVESTMENTS IN AND RESEARCH FUNDED BY COMPANIES BELONGING TO THE DEFENCE INDUSTRY

FINAL REPORT

1. PRELIMINARIES

1. The University Council established the Working Group in Michaelmas 2024. The decision to establish the Working Group was prompted by a student encampment as well as a Grace submitted by members of the Regent House in summer 2024. The encampment lasted for around 100 days between May and August 2024 when an agreement to disband it was reached with University officials.

2. In a published statement signed by the Vice-Chancellor in August 2024, the University committed 'to review our approach to responsible investment' and 'to review … the guidelines that inform academic and industry research ties and collaborations with companies including those falling within the arms/defence category'.[1] The Grace, which was signed by 165 members of the Regent House, called on the University to 'disclose in aggregate form the direct and indirect exposure of its investments within and outside the Endowment Fund in companies whose business is concerned with the arms industry…and that the University commits to divest from the arms industry.'[2]

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[1] https://www.cam.ac.uk/notices/news/upholding-our-values-responding-to-calls-from-our-university-community

[2] https://www.reporter.admin.cam.ac.uk/files/armsindustrygrace.pdf

Terms of reference

3. The terms of reference[3] for the Working Group were approved by the University Council in October 2024 and included the following instructions:

(i) to make recommendations to the relevant University committees that oversee policies in relation to investments and research;

(ii) to determine a suitable definition of companies to be classified as belonging to the defence industry;

(iii) to consider investments and research in relation to the defence industry and to make recommendations to the Council and other University committees.

4. The members of the Working Group were also instructed to have regard to the wider context when evaluating the areas of enquiry, particularly:

(i) the University's role as a civic institution in the UK (including in relation to national security);

(ii) the University's commitment to academic freedom and freedom of speech; and

(iii) the University's obligations under charity law and other relevant legislation such as export control.

5. As regards the investment strand of enquiry we were asked to consider the following questions in relation to the University's investments in the Cambridge University Endowment Fund ('CUEF'):

[3] https://www.admin.cam.ac.uk/reporter/2024-25/weekly/6759/section1.shtml#heading2-6

(i) whether the University's Statement of Investment Responsibility (ie its policy as an investor in CUEF) is in line with its institutional values in relation to the defence industry;

(ii) whether we consider that the CUEF's classification of companies belonging to the defence industry is satisfactory for the University as an investor in CUEF;

(iii) whether we are satisfied with the level of disclosure to the University as investor in CUEF of any direct or indirect exposure to the defence industry in the CUEF investment portfolios; and

(iv) what (if any) issues arise from potential divestment from the defence industry.

6. In assessing these questions we were required to take into account:

(i) that the CUEF investment model is to invest via third-party fund managers;

(ii) that distributions from the CUEF play an indispensable role in the University's finances;

(iii) that the CUEF invests donations made to the University, its Colleges and associated charitable trusts. It is overseen by the Cambridge University Endowment Trustee Body ('CUETB'); and

(iv) the Responsible Investment Principles of the CUETB.

7. As regards the research strand of enquiry our terms of reference require us to consider whether the University's guidelines/principles that inform its research funded by companies belonging to the defence industry are in line with its institutional values. We have also been instructed to take into account that the University encourages research collaborations and believes that openness is integral to its success as a world leading research-intensive University.

8. Our terms of reference identify the expectation that we will base our assessment and recommendations on evidence. We have obtained legal and regulatory advice from the University's Legal Services Office and also external legal advice. We have obtained evidence from experts within and outside the University. We have obtained evidence from other institutions, including the University of Oxford.

9. The members of the Working Group are:

- Chair: Professor Graham Virgo (Professor of English Private Law and Master of Downing College)
- Two student members from the Task Force arising from the encampment (appointed by the Task Force): Bassil Alaeddin and Augustin Denis
- A student member of the Council who is appointed by the Council: Alex Myall
- Two members appointed by the Council: Milly Bodfish (Secretary of the School of Biological Sciences, member of the University Council and member of the Cambridge University Endowment Trustee Body) and Dr Andrew Sanchez (Associate Professor in Social Anthropology)
- Two members appointed by the General Board: Professor Sir John Aston (Pro-Vice-Chancellor for Research) and Professor Nigel Peake (Head of the School of Physical Sciences)
- One member appointed by University of Cambridge Investment Management Limited ('UCIM'): Elaine Clements (Non-executive Director of UCIM)

Rhys Morgan (Head of Policy, Governance and Integrity) was appointed Secretary of the Group and the members of the Group are grateful for his assistance throughout our deliberations.

10. In addition to those conflicts of interest derived from eligibility for membership of the Group, the following specific conflicts of interest were noted:

Milly Bodfish, as a member of the University Council (until October 2025).

Augustin Denis, as Cambridge Student Union Postgraduate President and member of the Council since July 2025.

11. Our approach to our work has emphasised the following components.

(i) Collaborative and open spirit of enquiry.

Our terms of reference emphasised that:

> 'the issues to be explored by the Working Group are complex and … members of the Working Group will hold a variety of views. The Council expects that the members of the Working Group will treat each other with respect and conduct their business in the spirit of collaboration and transparency'.

(ii) Evidence-based

Our approach throughout has been to make recommendations on the basis of the evidence available to us.

(iii) Complexity of issues

We have been aware throughout our deliberations of the complexity of the issues with which we are dealing. We note that our terms of reference are not geopolitical but inevitably in the course of our discussions we have been acutely aware of geopolitical issues.

12. Since January 2025 we have held 14 meetings. Initially we invited guests, identified in annex 1, to our meetings to address various aspects of our terms of reference. We also invited some students and staff to address us about their experiences relating to the impact of the defence industry on their personal and professional lives. In June we held one town hall to

hear views from members of the University community. Around 400 people attended. We heard from over 30 of them and received many written comments subsequently. We have paid close attention to all the testimony we have received in formulating our recommendations, noting, however, our restrictive terms of reference and that some of the contributions strayed outside those terms of reference. A summary of this consultation has been appended at Annex 2. We have lacked the resource to facilitate a full consultation of the wider University community about the issues we have been considering. In the light of some of our recommendations, the University Council may wish to conduct such a consultation but it will require a full briefing document to ensure that respondents are fully informed about the complex issues we have examined. We hope that this report will provide some explanation of the legal, regulatory and financial environment within which the University is operating. We expect our report to be published by the University.

2. CONTEXT

13. To support the review it was first necessary to understand the governance, legal and financial context of the University.

(a) Governance

(i) The University Council

14. The 24 members of the University Council are charity trustees and are subject to legally enforceable fiduciary duties. Consequently, they are subject to a legal duty to act in the best interests of the University of Cambridge as regards all decision-making. In the context of investment, however, investment decisions are delegated to the Cambridge University Endowment Trustee Body ('CUETB'), which was created to discharge some of the legal duties of the members of Council as charity trustees

(ii) Committee on Benefactions, External and Legal Affairs (CBELA)

15. The Committee on Benefactions, External and Legal Affairs is a Committee of the University Council. Its activities are designed to discharge some of the legal duties of the members of Council as charity trustees. The membership of CBELA includes charity trustees and non-trustees. CBELA is not an ethics committee but is concerned with assessing reputational risk.

16. A core function of CBELA is to provide due diligence on potential donors to the University and potential funders of research. CBELA can recommend that funds are rejected but evidence is required and reasons must be identified, such as it being unlawful to accept money or because of an unacceptable reputational risk.

17. The University has ethical guidelines on the acceptance of benefactions (donations),[4] which include assessment of compatibility with the University's charitable purposes, reputational risks, and costs and burdens to the University. These guidelines require enquiry into whether the donation arises from activity that:

- evaded taxation
- violated international conventions that bear on human rights
- limited freedom of inquiry
- suppressed or falsified academic research.

(iii) Cambridge University Endowment Fund

18. The Cambridge University Endowment Fund ('CUEF') was established by the University of Cambridge in 2008 with the objective of bringing the fund management of the University's long-term investment assets in-house. CUEF has 23 investors, namely the

[4] Ordinance XIII, Notices by the Council, Ethical Guidelines on the Acceptance of Benefactions.

University, representing 78% of the assets, 17 Colleges and five associated trusts, each of which is a separate legal institution.[5] As of 30th June 2024, the net asset value of the CUEF was £4.2 billion.

19. The CUEF is managed by University of Cambridge Investment Management Limited ('UCIM'), a wholly owned subsidiary of the University. UCIM is a Limited Liability Company which is authorised and regulated by the Financial Conduct Authority. UCIM makes underlying investment decisions on behalf of the CUEF and bears responsibility for fulfilment of various oversight, compliance and risk requirements, to which it is subject as a regulated investment organisation. UCIM is governed by the University of Cambridge Investment Management Board ('UCIM Board') and is overseen by the Cambridge University Endowment Trustee Body ('CUETB').

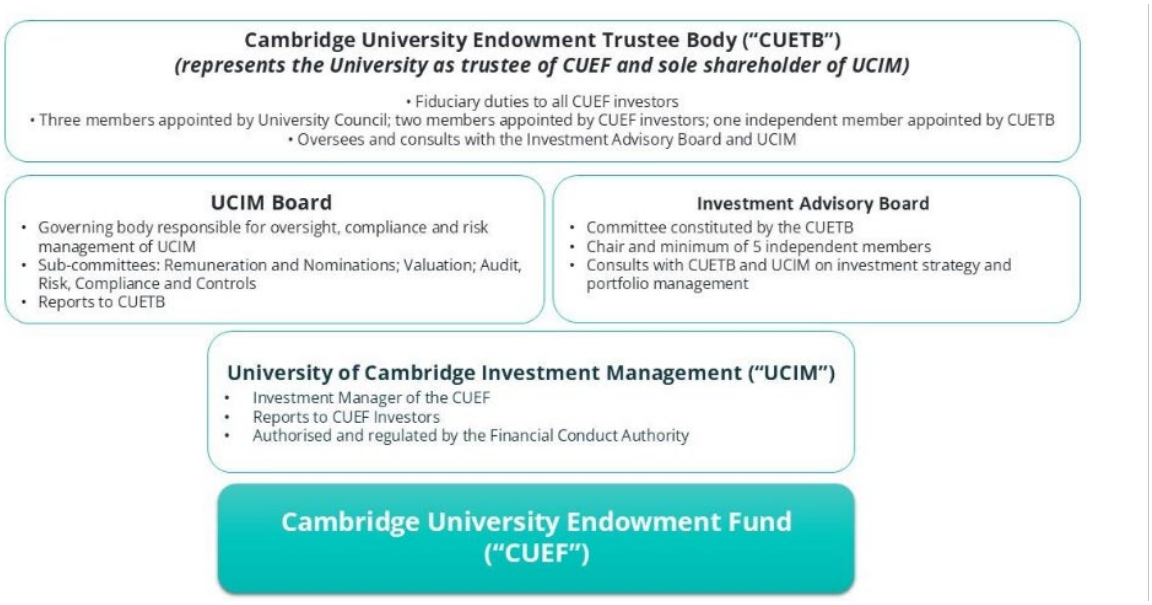
20. The Investment Advisory Board ('IAB') provides advice to UCIM on its investment strategy, including asset allocation and commitments to fund managers; it also consults as necessary with the CUETB on these matters. Members of the IAB are appointed by CUETB. The members all have significant investment experience and deep knowledge across the full range of asset classes. The Vice-Chancellor, the Chief Financial Officer, the Chair of the CUETB, the CIO of UCIM and the Chair of UCIM attend IAB meetings as observers.

21. The CUETB was created in 2022. The chairs of both the UCIM Board and the IAB report formally to the CUETB on an annual basis regarding the activities of UCIM. The CUETB, in turn, delivers an annual report to the Council. The CUETB represents the University in its roles as trustee of the CUEF and sole shareholder of UCIM. It also represents the interests of all investors in the CUEF. Its functions include setting investment objectives, distribution objectives and responsible investment principles. The CUETB is also

[5] 675af5fce26b8a5e4aff2095_CUEF 2024 Annual Review digital version compressed.pdf

responsible for making determinations regarding changes to the CUEF's investment remit requested by Unitholders which would impact any of the above objectives and principles.

22. The CUETB is comprised of six members. Three are appointed by the Council, of whom one must be a serving member of the Council and at least two of whom shall have relevant investment experience. The Council appoints one of these members as chair. Two further members are appointed by institutions with units in the CUEF (other than the University). A sixth member is appointed by the CUETB itself. This person must be independent of both the University and those other institutions with units in the CUEF. The member appointed for this purpose shall have significant experience in responsible investment unless the CUETB determines that one of its existing members has such experience, in which case the co-opted member shall have relevant investment experience. The figure below provides a schematic summary of the governance structure.



(iv) Research

23. Governance of research is conducted by the Research Policy Committee which is chaired by the Pro-Vice-Chancellor for Research.

24. The Advisory Group on Research Purposes ('AGRP') is a subcommittee of the Research Policy Committee and provides advice to CBELA on the potential uses of research in regard to specific areas of interest or concern. Currently its terms of reference encompass examining research proposals on energy transition funded by companies with major fossil fuel activities.

(b) Regulation

25. The University of Cambridge is an exempt charity subject to regulation by the Office for Students ('OfS') under the Charities Act 2011. This means that the University has charitable status but is exempt from registration with and direct regulation by the Charity Commission.

26. Whilst the OfS is the principal regulator of the University of Cambridge, the Charity Commission and its guidance still has relevance to the University because:

(i) The OfS may invite the Charity Commission to regulate the University on charity matters, including the exercise of the Commission's investigation and enforcement powers under the Charities Act 2011.

(ii) The University is not exempt from charity law, as reflected, for example, in the Charity Commission's guidance on investment[6] and donations.[7]

(c) Charitable purposes of the University

27. A matter of particular significance to our deliberations has been the identification of the University's charitable purpose or purposes. Any charity, whether exempt or not, must have a recognised and exclusive charitable purpose or purposes. Recognised charitable

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[6] For example, Investing charity money: guidance for trustees (CC14) - GOV.UK and Charities and Investment: Legal Underpinning.

[7] For example, Accepting, refusing and returning donations to your charity - GOV.UK and Political activity and campaigning by charities - GOV.UK.

purposes are identified by the Charities Act 2011 and defined by that Act and by case law. The identification of the University's charitable purpose or purposes is important because the University can only act in accordance with those purposes for public benefit and charity trustees are legally required to exercise their powers, including investment powers, to further those purposes when considering the ethical implications of investment decisions.

28. There is curiously little formal statement of the charitable purposes of the University of Cambridge. They are best expressed in the Statutes and Ordinances, where Statute C, Chapter 1, Section 4 describes the University as 'a place of education, religion, learning, and research'.

29. Under the Charities Act 2011, recognised charitable purposes include 'the advancement of education' (which includes research). For the purposes of this report, we consider that the charitable purpose of the University, consistent with the purposes recognised by the Charities Act 2011, is the advancement of education at or in connection with the University of Cambridge, which includes research and training.

Recommendation 1

The University Council should include a statement of the University's charitable purposes on the web page which describes the University as a charity.

(d) Mission and values of the University of Cambridge

30. It has also been important in our deliberations to consider what the mission and values of the University are, since these are relevant to considerations of investment and research funding policy.

31. The mission of the University of Cambridge is 'to contribute to society through the pursuit of education, learning and research at the highest international levels of excellence'.[8]

32. The University's core values[9] are:

(i) Freedom of thought and expression

(ii) Freedom from discrimination.

33. Particular aspects of the University's mission include the following statements:[10]

Education

- the encouragement of a questioning spirit
- an extensive range of academic subjects in all major subject groups
- quality and depth of provision across all subjects
- the close inter-relationship between teaching, scholarship, and research
- strong support for individual researchers as well as research groups
- residence in Cambridge as central to most courses
- education which enhances the ability of students to learn throughout life

The University's relationship with society

- the widest possible student access to the University
- the contribution which the University can make to society through the pursuit, dissemination, and application of knowledge

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[8] https://www.cam.ac.uk/about-the-university/how-the-university-and-colleges-work/mission-and-core-values

[9] Ibid.

[10] Ibid. Reference is also made to the Collegiate University.

- the place of the University within the broader academic and local community
- opportunities for innovative partnerships with business, charitable foundations, and healthcare
- concern for sustainability and the relationship with the environment
- the enhanced quality of experience for students and staff through College membership

University staff

- recognition and reward of the University's staff as its greatest asset
- the encouragement of career development for all staff

Other activities

- the opportunities for broadening the experience of students and staff through participation in sport, music, drama, the visual arts, and other cultural activities

34. The University of Cambridge Statement of Investment Responsibility (2016),[11] having identified the University's mission as above, states that all the resources of the University 'are ultimately applied to this charitable purpose'. But the mission is not a charitable purpose.

35. The Statement of Investment Responsibility also identifies the core values of the University, as well as freedom of thought and expression and freedom from discrimination, as encompassing concern for sustainability and the relationship with the environment. But this is not identified by the University in its public documents as a 'core value' of the University. It is further noteworthy that the core values of the University do not explicitly include academic freedom, which the University is now required to promote under the Higher Education

[11] Statement of Investment Responsibility.

(Freedom of Speech) Act 2023. However, we consider this to be implicit within the reference to freedom of expression. There is also no reference to the pursuit of knowledge as relevant to the mission of the University, although we consider this to be implicit within the University's charitable purpose of the pursuit of education, learning and research. We refer later in this report to the need to revise the Statement of Investment Responsibility in the light of our recommendations, which should also reflect the points we have made in this section.[12]

(e) Financial

36. It has been important for us to consider the present financial situation of the University. The Chief Financial Officer ('CFO') of the University reported to us that it is facing a challenging financial situation, albeit not as bad as that faced by many other higher education institutions in the UK, particularly because the University is less reliant on international students than other institutions. The impact of inflation on fee income was also damaging to the University. As a result of this challenging situation the University was needing to make a 5% saving in its expenditure.

37. The CFO noted that the CUEF played an indispensable role in maintaining the University's existing and expensive teaching model. Approximately 4% of the portfolio from the CUEF was paid to the University each year.[13] The CUEF supports the University by funding over 800 projects and programmes, including scholarships, bursaries, teaching and research into some of the most critical societal issues, such as life sciences, conservation,

[12] The inclusion in this report of a statement on 'ethical considerations and institutional values', proposed by the student representatives of the Task Force, was not supported by a majority of the members, since it lacks precision and falls outside our terms of reference, but it is included in Appendix 3 at the request of the representatives of the student taskforce.

[13] The amount distributed by the CUEF each year is calculated as the sum of (i) 70% of the previous year's distribution adjusted by the percentage change in the UK consumer price index during the preceding year plus 1% and (ii) 30% of 4% of the mean value of the CUEF over the preceding six half year ends.

climate change and technology.[14] Over the last decade, the Fund has distributed nearly £1.2 billion to its investors.

38. Income from Cambridge University Press and Assessment is also important to the University, particularly for maintaining the estate.

39. The University has a 'rainy day fund' and is presently drawing on this fund to address the deficit.

(f) University of Cambridge as a public university

40. Our terms of reference make specific reference to the need to consider the context of the University's role as a civic institution in the UK, including in relation to national security.

41. We consider that the University of Cambridge is preferably characterised as a hybrid institution, with some elements of its work being private but (by virtue of regulation, legislation and funding from the state) it embodies significant features of a public institution.

42. We are keenly aware that during the course of our deliberations UK Government policy has refocused on national defence[15] and security. The Government has also published the industrial strategy, with a particularly significant role for research universities in facilitating that strategy. The UK Government's National Security Strategy[16] describes an outlook for the UK of geopolitical uncertainty, greater exposure to economic shocks, rapid technological changes and persistent transnational risks such as climate change. 'Security at home' is a fundamental element of the National Security Strategy. National resilience is also a

[14] 675af5fce26b8a5e4aff2095_CUEF 2024 Annual Review digital version compressed.pdf

[15] Strategic Defence Review 2025 – Making Britain Safer: secure at home, strong abroad

[16] https://assets.publishing.service.gov.uk/media/685ab0da72588f418862075c/E03360428_National_Security_Strategy_Accessible.pdf

significant objective.[17] We note the commitment of the Government to 5% of GDP on defence spending by 2035.

43. In our deliberations it has been important for us to be aware of the important role of the University of Cambridge within the UK in facilitating national security.

44. We are also aware of the University's role as a global institution, being an international leader in education and research. The University is a globally diverse institution with almost a third of its students, including a large majority of its postgraduates, coming from over 140 countries and significant numbers of its staff coming from outside the United Kingdom.

3. 'THE DEFENCE INDUSTRY'

45. Our terms of reference require us 'to determine a suitable definition of companies to be classified as belonging to the defence industry'. We have spent a considerable amount of time considering this. We have identified that 'the defence industry' is rarely referenced when considering ethical investments and research. Rather, the focus tends to be on weapons. Consequently, we have focused on identifying different practices relating to exclusions of weapons and, in the light of that, sought to define illegal and, to the extent that they might be different, controversial weapons. We have also needed to consider whether any exclusion should be placed on investments in conventional weapons and so have considered how those weapons might be defined.

[17] https://www.gov.uk/government/publications/uk-government-resilience-action-plan/uk-government-resilience-action-plan-html

(a) Weapons

(i) Illegal weapons

46. Various categories of weapon are illegal under English law, typically by virtue of the implementation of various international treaties and conventions.

1. The Hague Declarations (1899): prohibits expanding bullets and asphyxiating gases

2. The Conventional Weapons Convention 1981 (ratified by the UK in 1995):

(a) prohibits the use of weapons the primary effect of which is to injure by fragments which escape detection in the human body by X-rays;

(b) restricts the use of mines, booby-traps and other devices. It prohibits the use of non-detectable mines against humans and booby-traps attached to civilian objects;

(c) prohibits the use of incendiary weapons against civilians e.g. flame throwers, rockets and grenades; and

(d) prohibits the use of laser weapons specifically designed to cause blindness.

3. The Firearms Acts 1968 and 2023 restrict the manufacture and possession of ammunition.

4. The Biological Weapons Act 1974[18] creates an offence for a person to develop, produce, stockpile, acquire or retain any biological agent or toxin of a type and in a quantity that has no justification for disease-prevention, protective or other

[18] This implements the 1972 Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction.

peaceful purposes; or any weapon, equipment or means of delivery designed to use biological agents or toxins for hostile purposes or in armed conflict.

5. The Chemical Weapons Act 1996[19] creates an offence to use, develop, produce or possess chemical weapons (defined as toxic chemicals) or engage in military preparations intending to use chemical weapons, other than for peaceful or other defined legitimate purposes.

6. The Anti-terrorism, Crime and Security Act 2001 creates an offence relating to the production or participation in the development of a nuclear weapon, possession of a nuclear weapon and engagement in military preparations for the use of a nuclear weapon. Some of this activity may, however, be authorised by the Government.[20]

7. The Landmines Act 1998[21] relates to anti-personnel mines and their components and creates an offence to use, develop or possess anti-personnel mines.

8. The Cluster Munitions (Prohibitions) Act 2010[22] creates an offence relating to the use, development or possession of cluster munitions and explosive bomblets.

Many of these weapons are illegal in other countries, although some countries, notably the United States, have not acceded to the international conventions which prompted much of the English legislation, whilst other countries, such as the Baltic states and Poland, are currently considering withdrawing from some international conventions.

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[19] This implements the 1993 Convention on the Prohibition of the Development, Production, Stockpiling and the Use of Chemical Weapons and on their Destruction.

[20] We also note that the Treaty on the Non-Proliferation of Nuclear Weapons (1968) requires all signatory parties 'to pursue good-faith negotiations on effective measures relating to cessation of the nuclear arms race, to nuclear disarmament, and to general and complete disarmament'. The UK has ratified this treaty.

[21] This implements the 1997 Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction.

[22] This implements the 2008 Convention on Cluster Munitions.

(ii) Complicity

47. A further issue we have considered is the extent to which a party might be considered to be complicit in illegal activity by virtue of their assistance in or encouragement of that activity. Such complicity, known as accessorial liability, would render the accessory criminally liable for the same offence. Accessorial liability would be relevant to assisting or encouraging any of the offences relating to illegal weapons. It might also be relevant to an issue, which largely falls outside our terms of reference, relating to activity which is illegal under international law, such as activity which assists or encourages illegal occupation of another state, war crimes and crimes against humanity and genocide.

48. A number of witnesses, and some of those who commented at the Town Hall and subsequently, alleged that the University of Cambridge, and therefore its students and staff, is complicit in criminal activity through its investments and research activity.

49. We received evidence from the International Centre of Justice for Palestinians ('ICJP'), an independent organisation which is focused on Palestinian rights under international and domestic law, which asserted that such complicity might be established without the need to show a substantial contribution to the commission of the crime and without needing to prove a positive intent to commit the crime.

50. Some members of the Group rejected this evidence as a statement of the law on accessorial liability. English law requires proof of an intention that the substantive crime be committed.[23] Also, the further removed the alleged accessory is from the commission of the crime, the more difficult it will be to show that they did encourage or assist the crime and had the intention to do so.

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[23] *Jogee* [2016] UKSC 8.

51. One specific issue relates to whether owning shares in an overseas company which is producing weapons which are illegal by English law but which are legal in that country might constitute accessory liability. The fact that the prohibition of the manufacture or possession of the weapons is illegal in England will often[24] mean that, if the requirements of accessorial liability can be established, there may be criminal liability in England. However, merely owning shares in the company will not be sufficient to establish assistance or encouragement in the manufacture of the weapon and it may be difficult to establish the necessary intention that those weapons are manufactured in that other country.

52. Consequently, whilst it is important to be aware that intentionally assisting or encouraging a crime may result in the imposition of criminal liability on the accessory, it is important that the language of being an accessory and complicity is used carefully and precisely.

(b) Definition of the 'Defence Industry'

53. Our terms of reference require us to consider the definition of the 'defence industry' with particular reference to the guidelines developed by the Church of England's Ethical Investment Advisory Group in respect of the investing bodies of the Church of England.

54. We have considered some other definitions promulgated by investors and index providers which have been provided to us or referred to us by various witnesses. We have found that the language of the 'defence industry' is rarely used, with the focus instead on weapons, which are variously described as 'illegal', 'controversial', 'indiscriminate' or 'conventional'. We summarise various of these guidelines below.

[24] This will depend on the statute which creates the offence in England and whether it extends jurisdiction to accessorial liability for the weapon being made, possessed or used abroad.

(i) Church Commissioners for England Responsible and Ethical Investment Policy

55. The purpose of the Church of England's Ethical Investment Advisory Group[25] is to support the national investing bodies of the Church of England to invest ethically in a way which is distinctly Christian and Anglican. This Group's Defence Advice was developed in 2010 and consisted of 23 pages of restrictions.[26] It was revised in August 2024 and is due for further revision, but this will not be published until late October 2025. The Advice recommends that national investing bodies should exclude investments in companies which:

> (i) are involved in the production or supply of indiscriminate weaponry (defined as nuclear weapons, anti-personnel mines, cluster munitions, chemical weapons or biological weapons), with no turnover threshold to be applied; or
>
> (ii) are involved in the production, processing, supply or storage of weapons-grade nuclear fissile materials, with no turnover threshold to be applied; or
>
> (iii) are involved in the provision of strategic parts or services for anti-personnel mines, cluster munitions, chemical weapons or biological weapons, with no turnover threshold to be applied; or
>
> (iv) they derive more than a de minimis turnover from strategic military sales including conventional military platforms, whole military systems, weaponry or strategic military parts or services.

56. We note that the Church Commissioners for England do allow for their portfolio to include exposure to these and other restricted categories if these exposures arise from

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[25] https://www.churchofengland.org/about/governance/national-church-institutions/ethical-investment-advisory-group

[26] https://www.churchofengland.org/about/leadership-and-governance/ethical-investment-advisory-group/policies-and-reviews

investments in third-party pooled funds. A 1% maximum threshold is applied in such instances.

57. We also note that the Grace which was submitted to the Regent House under Special Ordinance A (ii) 5, whilst endorsing the Church Commissioner's exclusionary definitions, added exclusions from technological surveillance companies which derive more than 10% of their revenue from their technologies being used by states for military purposes. We note that this exclusion is not included within the Church Commissioner's definitions or that of other indices which we have considered.

(ii) FTSE TPI exclusionary index

58. FTSE Russell is a leading global provider of benchmarks, analytics and indices. Its exclusionary index document[27] excludes companies producing controversial weapons, which are defined as chemical and biological weapons, cluster munitions and anti-personnel landmines.

59. This index also identifies companies producing nuclear weapons and weapons for military use, including munitions, vehicles designed to carry military weapons (mounted or demountable), weapons delivery systems and guidance systems. Companies that produce firearms or ammunition for non-military use including shotguns, rifles and semi-automatic weapons can also be excluded under this framework.

60. In addition, companies that are assessed to be violating human rights by contravening Principles 1 and 2 of the UN Global Compact,[28] which is derived from the Universal Declaration of Human Rights, are excluded. Principle 1 states that businesses should support and respect the protection of internationally proclaimed human rights and Principle 2 states

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[27] https://www.lseg.com/content/dam/ftse-russell/en_us/documents/ground-rules/ftse-tpi-climate-transition-custom-developed-ex-weapons-ex-ff-reserves-ex-tobacco-index-ground-rules.pdf

[28] https://unglobalcompact.org/what-is-gc/mission/principles

that companies should make sure they are not complicit in human rights abuses. Companies deemed to be in violation of the other principles of the UN Global Compact, that focus on labour rights, the environment and anti-corruption, are also excluded.

61. The Cambridge Multi-Asset Fund[29] currently uses the FTSE TPI exclusionary index for its investment policy.

(iii) MSCI GICS Aerospace and Defence sector

62. MSCI, the market leader in sustainable indices provision, has shaped its policy over 15 years in consultation with investors. Its indices are updated periodically, after consultation, to reflect changes in UN conventions, treaties and national laws. Research by MSCI researchers identifies companies involved in the production of particular categories of weapons. Investors are able to use this data to exclude such companies from their investment universe.

63. The MSCI[30] definition of controversial weapons includes companies which manufacture cluster bombs, landmines, depleted uranium, chemical and biological weapons, blinding laser weapons, non-detectable fragments and incendiary weapons (white phosphorus). MSCI also provides detailed definitions of nuclear weapons, civilian firearms, and conventional weapons.

64. The MSCI ESG Controversies and Global Norms index document[31] outlines a detailed framework for excluding companies deemed to be in violation of human rights and global norms; as with FTSE, the UN Global Compact Principles are used as a foundation for judging the behaviour of companies. King's College Cambridge has adopted these MSCI

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[29] See paras. 76-77, below.

[30] https://www.msci.com/eqb/methodology/meth_docs/MSCI_ESG_Universal_Select_Business_Screens_Indexes_Methodology_May_2023.pdf

[31] https://www.msci.com/documents/1296102/14524248/ESG-Research-Controversies-Methodology.pdf

exclusion frameworks following its recent review of the College's responsible investment policies.[32]

(iv) Legal and General Investment Management Controversial Weapons

65. L&G Asset Management Limited is a major global investor across public and private sectors. It has a Controversial Weapons policy to exclude from its investments those companies involved in the manufacture and production of cluster munitions, anti-personnel landmines and biological and chemical weapons.

(v) Violations of humanitarian conventions, laws and regulations

66. We note that the Grace which was submitted to the Regent House under Special Ordinance A (ii) 5 also advocated exclusions of companies associated with violations of international humanitarian conventions, laws and regulations. We note that some of the indices we have considered do have similar exclusions. We are also aware of databases which identify companies which are considered to be supporting unlawful activity in war, conflict and occupation.[33]

(vi) Conclusions

67. Having considered the various definitions we have concluded that the focus of our deliberations should not be on 'the Defence Industry' but should be on companies which produce particular types of weapon (and possibly any company which manufactures any weapons). We do not consider that the Church Commissioners' definitions are necessarily the

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[32] https://www.kings.cam.ac.uk/a-greener-kings/divestment. See further paras. 89-90, below.

[33] See, for example, the list of business enterprises alleged to be supporting illegal settlement in Palestine, produced by the Office of the United Nations High Commissioner for Human Rights: https://www.ohchr.org/sites/default/files/documents/hrbodies/hrcouncil/sessions-regular/session31/database-hrc3136/23-06-30-Update-israeli-settlement-opt-database-hrc3136.pdf. See also the list of companies involved in state violence and human rights violations as part of occupations prepared by the American Friends Service Committee (https://investigate.info/occupations) and the Who Profits Research Center database detailing corporations involved in and profiting from the ongoing illegal Israeli occupation of Palestinian and Syrian land and population (https://www.whoprofits.org/companies/all).

most appropriate to adopt, because their investment policy is based on an ethical policy, consistent with its charitable purpose, which is 'distinctly Christian and Anglican'.

68. Consequently, we reject the assumption made by Council which informed our terms of reference that we should determine a suitable definition of companies to be classified as belonging to the defence industry. We reject this premise for the following reasons:

(i) This is not a definition which is widely used, especially as regards investments.

(ii) The implicit assumption that 'the defence industry' is negative is out of line with the importance of the role of the defence sector in national and international security. A nation's right to self-defence is fundamental and is recognised in international law.

(iii) Behind the phrase 'the defence industry' is the more fundamental concern relating to weapons and how, where and by whom they are deployed. This is how we consider our terms of reference should have been defined.

(iv) The question then is whether we should consider a company's activities are unacceptable because of their involvement in the manufacture of illegal, controversial or conventional weapons.

69. We are aware that there are concerns about connecting with companies which are deemed to be in violation of human rights, for example through their facilitation of the unlawful occupation of territories. We consider that consideration of these matters falls outside our terms of reference, but we consider that further thought should be given to the extent and nature of engagement with such companies, whether through investment or research. Later in this report we suggest how this might be best achieved.

4. INVESTMENT

(a) Structure of investment vehicles within the University of Cambridge

(i) CUEF

70. The CUEF invests donations made to the University, some of the Colleges and associated charitable trusts. The CUEF is a dedicated, specialist vehicle, designed to combine long-term capital appreciation and reliable cash distributions for its investors.

71. UCIM's investment strategy on behalf of the CUEF is to deploy capital via third-party fund managers, a well-established model of endowment management, also known as the 'fund of funds' model. Within this model, UCIM invests predominantly through 'pooled' investment vehicles run by unconstrained active asset managers ('active managers') who, unlike passive asset managers, carry out deep fundamental due diligence to select a small group of companies for their portfolios. UCIM invests only sparingly through index fund products or through 'screened' investment products which explicitly aim to track a specific index. The 'active' fund managers are typically specialist firms, with full discretion over the choice of securities into which they invest. This flexibility allows these managers to target a better investment outcome for their clients.

72. The fund of funds model enables investment in difficult to reach assets. The CFO informed us that CUEF adds approximately one extra percentage point on an annual basis to the value of the endowment relative to a passive '65/35' portfolio (consisting of a 65% allocation to global equities and a 35% allocation to a combined portfolio of global government bonds, UK government bonds and UK property) amounting to about £40 million per year. The total incremental gains arising from the use of the fund of funds model comprises both the sum of its regular distributions and the value of the fund itself. UCIM informed us that, whilst only approximately 4% of the CUEF's value is distributed to the

CUEF's investors each year, the other 96% remains the property of investors. This value can either be (i) retained, grown and used to enhance the distributions paid out to future generations or (ii) spent in the present day (given that more than 4% of the fund's value may be redeemed from the fund at any particular time, at each investor's option). It is also important to note that the incremental income derived from the relative gains generated by UCIM's fund of funds model cannot be approximated by taking 4% of the CUEF's annual outperformance contribution. This is because the outperformance which is generated compounds over time, meaning the distribution made each year is meaningfully larger than it would otherwise have been absent relative gains made in previous years. UCIM analysis indicates that CUEF's value as at 30th June 2024 would have been approximately £3.4 billion had its performance mirrored that of a passive strategy since its inception in 2008. Instead, the CUEF was actually worth £4.2 billion, representing an uplift of just over £800 million (assuming the payment of an identical stream of distributions over time in each case). As such, the actual distribution paid out to all the investors in CUEF in the Financial Year ended 30th June 2024, for example, was £165 million. This figure is 27% larger than the £130 million distribution which would have been paid out had a passive strategy been followed since inception (representing a far greater uplift than the 4% approximation). Should this outperformance continue into this future, this disparity will only grow.

73. UCIM operates within the parameters of the University's Statement of Investment Responsibility and the CUETB's Responsible Investment Principles, which support its approach to the selection of fund management partners. UCIM provided an overview to the Working Group of its focus on due diligence and responsibility, which results in a highly selective investment process. For example, in 2024, UCIM reviewed 476 potential investment funds, electing to make new investments in just three of them (0.6%).

74. Legal agreements between the CUEF and its fund management partners prohibit investment in activities illegal in the jurisdictions in which they operate. Further, the majority of the CUEF's fund management partners are regulated by securities commissions in their local jurisdiction (such as the UK's Financial Conduct Authority or the US Securities and Exchange Commission) and are subject to the scrutiny of these regulatory bodies.

75. UCIM also informed us that if it deems any of the CUEF's fund manager partners to be acting in an unethical way (whether through their investments or their personal or professional conduct), UCIM would terminate the CUEF's partnership with them.

(ii) Multi-asset fund

76. The Cambridge University multi-asset fund consists of between £400-£500 million. The function of this fund is to provide the University with accesses to liquid funds. The return on this fund is lower than that for the CUEF, but the fund is more flexible and allows for exclusions to be applied more easily.

77. Investment of these funds is subject to the exclusions of FTSE TPI Exclusion Index and the iBoxx GBP Corporates 1-5 ESG Screened Index Guide, which encompasses the exclusion of investment in companies which manufacture what are defined as controversial weapons, conventional weapons and companies deemed to be in violation of the UN Global Compact's 10 Principles.[34]

(b) Classification of companies

78. We were specifically asked in our terms of reference to consider whether CUEF's classification of companies belonging to the defence industry is satisfactory for the University as an investor in CUEF. We were informed that UCIM does not adopt such a

[34] See para. 60, above.

classification of companies. UCIM uses the MSCI General Industry Classification System (GICS) for industry classification.[35] GICS is the broadly recognised industry classification within investment management. GICS adopts a classification by reference to Aerospace and Defence together.

(c) Ethical considerations

(i) General principles

79. One of the key issues which the Working Group has needed to consider is the extent to which members of the University Council, as charity trustees, (and their delegates, namely CUETB) can take into account ethical considerations when determining investment strategy. An ethical investment has been described as one 'made not, or not entirely, for commercial reasons but in the belief that social, environmental, political or moral considerations make it, or also make it, appropriate'.[36] The CUETB defines Responsible Investment as 'an approach to investment that explicitly acknowledges the relevance to the Fund of environmental, social and governance factors. It recognises that the generation of attractive long-term investment returns is dependent on stable, well-functioning and well-governed social, environmental and economic systems, including financial markets'.

80. The law[37] allows for charity trustees to take ethical considerations into account when making investment decisions, but only exceptionally. The prime aim of charity trustees when making investment decisions is to ensure the best financial return, even if this is contrary to the charity's charitable purposes. But this is not an absolute objective. The trustees can exercise their discretion to take into account ethical considerations when selecting

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[35] See paras. 62-64, above.

[36] *R (on the application of Palestine Solidarity Campaign Ltd) v Secretary of State for Housing, Communities and Local Government* [2020] UKSC 16, [2020] 1 WLR 1774, [1] (Lord Wilson).

[37] *Harries v Church Commissioners for England* [1992] 1 WLR 1241; *Butler-Sloss v Charity Commission for England and Wales* [2022] EWHC 974 (Ch), [2022] Ch 371.

investments and it is legitimate to take into account direct and indirect conflicts with charitable purposes. Further, it is legitimate to take into account the impact of investment which might hamper the work of the charity by making potential beneficiaries unwilling to be helped because of the sources of investment income or by alienating supporters. This requires a balance to be struck between the likely cost of lost support by adopting a particular investment policy and the risk of financial under-performance from the implementation of that policy.

81. The state of the law has been usefully summarised by the Charity Commission as follows:[38]

> Where you [a charity trustee] identify that an investment (current or planned) could conflict with your charity's purposes or harm its reputation, this is a relevant factor for your decision-making. The law says that it is up to you to decide whether to make or not make the investment, acting in compliance with your trustee duties, and balancing the following:
>
> - all the factors that are relevant to your charity's circumstances and investment decisions
> - the extent of any potential conflict and how likely and serious it is
> - any potential financial effect of a decision to exclude the investment and how likely and serious this is …

[38] Charity Commission guidance *Charities and Investment matters: a guide for trustees* (CC14) (2023), https://www.gov.uk/government/publications/charities-and-investment-matters-a-guide-for-trustees-cc14/charities-and-investment-matters-legal-underpinning

> However you decide to invest, you must balance the potential benefits of taking a particular approach with any risks it brings to your charity. Your approach must be in the best interests of your charity.

(ii) Application to the University of Cambridge

82. We consider that these principles should be applied in the following way in determining whether the University of Cambridge should disinvest from companies which manufacture weapons.

83. (1) The primary and overarching duty of charity trustees is to further the purposes of the charity. This means, in the context of the University of Cambridge, that the powers of investment must be exercised to further the purposes of education of Cambridge students and research.

84. (2) We[39] do not consider that investment in companies which manufacture any weapons conflicts with these charitable purposes, since the financial return from these investments enables education and research to be delivered, bearing in mind, for example, that the undergraduate home tuition fee does not come close to covering the cost of an undergraduate education, meaning that the University needs to rely on other sources of income to support both education and research.

85. (3) It is, however, appropriate for the University to have regard to ethical considerations to determine whether it wishes to invest in companies which manufacture certain types of weapon or, indeed, any weapon.

86. (4) It follows that it is first necessary to determine the financial implications of disinvestment from a particular company and whether equivalent financial investments can be made which secure a similar financial return.

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[39] One member did not wish to be associated with this paragraph.

87. (5) In considering the financial effect of making or excluding certain investments, the trustees should take into account the risk of losing support from donors and damage to the reputation of the University generally and in particular among its beneficiaries. Relevant considerations would include:

(i) Have any students or staff left the University or declined to come because of the nature of the University's investment portfolio?

(ii) Have any donations been withdrawn or failed to be made because of the University's investment portfolio?

(iii) Have any research or teaching collaborations been terminated or failed to happen?

88. If this balancing exercise is properly done and a reasonable and proportionate investment policy is thereby adopted, the charity trustees will have complied with their legal duties in this respect and cannot be criticised, even if the court or other trustees might have come to a different conclusion.

(iii) King's College, Cambridge

89. During the course of our deliberations we became aware of the approach of King's College, Cambridge to disinvestment. We invited the First Bursar of the College to attend one of our meetings to explain the background to the decision of King's College. The College has excluded investment in:

> 'Companies that are complicit in human rights violations and other severe breaches of international law or involved in severe controversy, including those that breach the UN Global Compact…. companies that support or sustain the illegal occupation of Palestinian territory, as confirmed by the International Court of Justice in its Advisory

Opinion of 19 July 2024. The College applies equivalent principles to the illegal occupation of other territories.'

The College also excludes investments in companies which produce armaments, including military weapons; biological, chemical or other weapons restricted by international treaty; or produce key or dedicated components of such weapons.

90. We consider that our analysis of exclusions on ethical grounds by the University of Cambridge must necessarily be different, for the following reasons. First, because our terms of reference focus on defence and do not encompass human rights violations. Secondly, the charitable purposes and institutional values of the University of Cambridge might be materially different from those of King's College.[40] Thirdly, the investment model of King's College is very different from that of the CUEF and, as the First Bursar confirmed to us, its financial performance has differed accordingly. We note that the First Bursar of King's College indicated that the decision for the College to adjust its financial policy had resulted in financially 'attractive' options for the College, but that the College does not adopt a fund of funds model of investment.

(d) Responsible investment policy

91. We were asked whether the University's responsible investment policy is in line with the University's institutional values. This is difficult to analyse because of the difficulties in identifying what those values are. We understand that the University's Statement of Investment Responsibility[41] has not been updated for a significant period of time and it does not reflect the University's policy on fossil fuels. Clearly the Statement needs to be updated

[40] The charitable purpose of which is 'to maintain a College within the University of Cambridge dedicated to the advancement of education, religion, learning and research'.

[41] Statement of Investment Responsibility.

in the light of those developments, but also in the light of our recommendations and the evidence we have considered.

Recommendation 2

The University's Statement of Investment Responsibility needs to be updated to reflect the University's policies on fossil fuels and also the other recommendations in our report.

92. CUETB has a statement of Responsible Investment Principles.[42] These are defined as 'the high-level principles of the CUEF set by the Trustee with regard to responsible investment, as non-binding guidance (as updated by the Trustee from time to time); but for the avoidance of doubt, excluding matters relating to the Investment Strategy.' CUEF has four principles: invest for the long term; promote good governance; align with net zero; and champion diverse teams.

93. In the light of our recommendations and the evidence we have seen we recommend to CUETB that it reviews its statement of Responsible Investment Principles, with explicit reference to the University's institutional values and to the need to avoid investment in 'illegal weapons' and 'controversial weapons',[43] which we consider further in section (j), below.

(e) Sustainable investment strategy

94. UCIM's sustainable investment strategy on behalf of the CUEF was announced on 1st October 2020. As part of this strategy, UCIM aims to have 'no meaningful direct or indirect exposure to fossil fuels in the Fund's portfolio by 2030'. This will exclude

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[42] Responsible Investment Principles.

[43] If additional changes in investment policy relating to conventional weapons are also made, as discussed later in this Report, this will need to be reflected in the Responsible Investment Principles.

investment in companies which extract oil and gas, but it is anticipated that this will not cause significant loss to the value of the endowment. This divestment is a multi-year process because of the complexity of the investment model.

95. Although the fossil fuel divestment report had initially indicated that the fund of funds model would need to change to allow divestment, this did not occur because UCIM determined that adjustments could be negotiated with the relatively small number of fund managers that invested in fossil fuels over a ten-year period. Further, as a long-term investor, UCIM came to the view that the energy transition would eventually render the conventional energy sector obsolete, such that excluding it from the CUEF's investable universe was unlikely to result in financial detriment.

96. As part of the Working Group's evidence-gathering process, UCIM was challenged as to why, given its commitment to exclude fossil fuels by 2030, it viewed 'defence industries' differently. UCIM stated that it believes that it is more relevant to address this point from the opposing perspective: that it is both (1) not in the interests of investors and (2) impracticable for the CUEF to divest from *any* category, but that an exception was made for fossil fuels because:

(i) UCIM's sustainable investment strategy is aligned with the University's position as a globally leading academic centre of climate science; in this context, it would be inconsistent for the CUEF portfolio to invest in conventional energy/fossil fuels, which represent the ultimate source of greenhouse gas emissions.

(ii) The Energy sector is a clearly defined sector within the MSCI General Industry Classification System ('GICS'), which is not the case for 'defence'. UCIM can therefore be very precise with portfolio managers as to what should be excluded from the CUEF's portfolio.

(iii) Relatively few fund managers that UCIM would consider to be potential partners invest in the Energy sector because security prices are often substantially driven by commodity (oil and gas) prices, rather than by company-specific factors (i.e. a number of managers exclude Energy investments themselves).

(iv) Parts of the Energy sector is in a process of structural decline towards obsolescence by virtue of the energy transition - therefore, by contrast to other sectors of the economy, as a long-term investor UCIM is not meaningfully restricting its investable universe by excluding investment in the sector. Consequently, the University will not suffer financial detriment from removing such investments from its portfolio, unlike investment in companies which manufacture weapons.

(v) Most of UCIM's managers have been willing to cooperate on removing fossil fuels from their portfolios, as the CUEF is one of a number of major investors that has adopted a similar position. Therefore, this is the one exclusion that many portfolio managers are willing to accommodate. By contrast, no major University endowment has so far excluded defence from its portfolio.[44]

(f) Disclosure

97. We were asked by the University Council to consider whether we are satisfied with the level of disclosure to the University as investor in CUEF of any direct or indirect exposure to the defence industry in the CUEF investment portfolios.

98. The University as an investor receives information about the investments, but, for legal reasons of confidentiality, it is not possible to disclose this more widely. It has therefore not been possible for the Working Group to obtain detailed information about the level of

[44] UCIM conducted research (provided to the Working Group) illustrating that no institution within a cohort of leading University endowment funds in the UK and the US has implemented such an exclusion. See further section (h), below.

exposure because of this confidentiality. In particular, UCIM has not been able to provide to the Working Group a list of all the companies in which the University invests, by virtue of its obligations to maintain confidentiality. The Chair of the Working Group has been provided with detailed information relating to CUEF investments, but he was required to sign a non-disclosure agreement before this information could be provided to him and consequently he has not been able to share the information with members of the Group.

99. UCIM has confirmed that CUEF has no direct exposure to the 'defence industry' and that exposure to the MSCI GICS Aerospace and Defence sector through third party fund managers was substantially below the level within the MSCI All-Country World Index of global equities, which was 1.7% as at 31st December 2024. Furthermore, UCIM noted that the vast majority of such exposure within the CUEF is represented by broadly diversified aerospace components companies. UCIM also confirmed that the CUEF has no exposure to illegal weapons, namely investments in any company incorporated in England which manufactures weapons in England which are illegal by English law, and no exposure through it's 'active' fund managers and negligible exposure through 'passive' (index) funds to controversial weapons, namely weapons which are illegal by English law but legal in the country in which the relevant company is incorporated.

100. We acknowledge the commercial importance of confidentiality, but the fact that the members of the Working Group do not know the extent of the University's investments in companies which manufacture weapons has made the formulation of our recommendations significantly more difficult. The confidentiality relating to the investments and consequent lack of transparency has undoubtedly contributed to a suspicion in parts of the wider University that the University's investments in CUEF are much more extensive as regards companies which manufacture weapons than appears to be the case. We realise that the extensive governance arrangements relating to the CUEF have been implemented by the

University as a way of providing assurance about decisions relating to investments. We also understand that UCIM has obtained legal advice about its obligations of confidentiality. Whilst we are in no position to challenge this legal advice, and whilst we are cognisant of the fact that the University is not the only investor in CUEF, had it been possible for UCIM and CUETB to make any statement to the wider University about the extent of investment either in companies which manufacture weapons or even investment in the aerospace and defence industries (without identifying those companies by name, which would clearly be in breach of the obligation to maintain confidentiality), this would at the very least have provided a degree of clarity and removed some of the suspicion that the University's investments in this sector are significantly more expansive that they actually are. In the light of this we would urge UCIM and CUETB to consider in future whether more transparent communication about investments in particular sectors might be compatible with the obligations to maintain confidentiality.

101. In the light of assurances that we have received that the level of indirect investment in the Aerospace and Defence sector is 'substantially below' 1.7%, we would urge UCIM to consider further whether it could communicate levels of investment to the wider University community without breaching confidentiality. A statement, for example, that the level of investment in the Aerospace and Defence sector is at or below 1% of the University's investments (with a significant part of that being in aerospace) would increase transparency and is likely to increase confidence in the investment strategy in some parts of the University community. However, in the light of our subsequent recommendations focusing on investment in the manufacture of weapons we would prefer a statement from UCIM and CUETB about the extent of such investment rather than a statement about investment in Aerospace and Defence.

(g) Impact of disinvestment

102. Our terms of reference specifically ask us to consider what if any issues would arise from potential disinvestment from the defence industry. We consider that this is the wrong issue to consider since, consistent with our general approach to our terms of reference, we consider that the salient issue relates to investment in particular or any weapons.

103. The Working Group heard from UCIM and others that a requirement to exclude any category of investment in addition to fossil fuels might limit access to fund managers, thus jeopardising the fund of funds model and also jeopardise the anticipated financial returns from the CUEF. More generally, academic research indicates that implementation of sector exclusions in any portfolio is likely to hinder long-term investment outcomes, given that they limit the ability to diversify effectively.[45]

104. The 'active' funds in which the CUEF invests typically aggregate capital from a number of institutional investors (ranging from tens to hundreds), including educational endowments similar to the CUEF, foundations, pension and insurance funds, sovereign wealth funds, as well as single- or multi-family investment offices. Each of these investors has its own distinctive set of values and priorities. Active fund managers are therefore unable to accommodate individual divestment requests from single investors.[46] UCIM expects that the majority of the CUEF's 59 core fund managers[47] would decline any such request to exclude further categories of investment, leading to the termination of these relationships.

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[45] See Markowitz (1952) at https://www.jstor.org/stable/2975974] and Atta-Darkua et al (2022) at https://ssrn.com/abstract=3232146.

[46] UCIM noted that for this reason, other endowments, such as Wellcome and the Church Commissioners, create exceptions for exposure to certain categories via third-party fund managers (known as 'carve-outs') within their responsible or ethical investment policies.

[47] UCIM's 'core' fund managers are those managers with which the CUEF has an active ongoing relationship; investments with these managers represent the vast majority of the capital in the Fund.

105. ‘Active’ funds are distinct from ‘passive’ funds, which aim to track a particular stock or bond market index. By contrast, it is very common for index funds to offer ‘screened’ investment products, from which certain categories of investment are excluded. An example of such a screened index product is the University’s own Multi-Asset Fund.[48]

106. UCIM informed the Working Group that the best way to calculate the impact of disinvestment from an investment category, such as ‘defence industries’, is to compare the investment performance of the CUEF against a ‘passive’ alternative. In its reporting to investors, and more broadly, UCIM compares the performance of the CUEF to an investment portfolio comprising 65% equities and 35% bonds and property.[49]

107. From inception of the CUEF in 2008 to 30th June 2024, the last reported full financial year performance, the CUEF has delivered annualised returns of +9.0%, compared to +7.7% for a ‘passive portfolio’. UCIM analysis indicates that the return of a passive portfolio screened to remove the ‘defence’ sector would have been lower still.[50] Under the tenure of the current UCIM team, from 1st July 2020 to 30th June 2024 the CUEF has delivered annualised returns of +8.8%, compared to +7.0% for a ‘passive portfolio’, representing £301m in relative gains over this period. UCIM informed us that these incremental gains (equivalent to 7% of the CUEF’s total portfolio value as at 30th June 2024) would not have been achieved for the University and other investors had the CUEF adopted a passive portfolio approach to investment. The University’s CFO confirmed to us that it is in the best interests of the University to continue with its current endowment investment model.

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[48] See paras 76-77, above.

[49] The “65:35 Passive Portfolio”, which UCIM provides to CUEF investors for comparative purposes, consists of: 33% MSCI World Index (GBP-Unhedged) – ex. fossil fuels after 1st July 2020, 24% MSCI World Index (GBP-Hedged) – ex. fossil fuels after 1st July 2020, 8% MSCI Emerging Markets Index (GBP-Unhedged) – ex. fossil fuels after 1st July 2020, 15% Bloomberg Global Aggregate Bond Index (GBP-Hedged), 10% FTSE British Government Index-Linked All Stocks (GBP), 10% MSCI UK Quarterly Property Index (GBP).

[50] Based on the observation that, since the inception of the CUEF, the MSCI GICS Aerospace and Defence sub-sector index has outperformed the broader universe of developed markets stocks (as proxied by the MSCI World Index).

108. Some members of the Working Group questioned this methodology and challenged UCIM to provide an alternative approach to calculating the impact of disinvestment. UCIM stated that the use of any alternative methodology to calculate the impact of disinvestment is not possible with any acceptable level of accuracy, given the number of assumptions that would need to be made, including: (i) the definition of 'defence' to be adopted, (ii) estimation of the prospective performance impact of mandate changes for any managers willing to accommodate this exclusion, (iii) the prospective performance impact of terminating positions with managers who did not accommodate the change, and (iv) the broader portfolio changes which would accompany these impacts and terminations.

109. In the light of the challenging financial circumstances affecting the University, with no sign that this will change soon, and the legal obligation on charity trustees primarily to ensure the best financial return, albeit with reference to ethical considerations where appropriate, we consider that the existing 'active' investment model should be retained.

110. However, in the light of the events relating to consideration of divestment from fossil fuels, implementation of new investment policies are not necessarily incompatible with maintaining the existing investment structure.

111. When UCIM was asked to model divestment from fossil fuels for the 2021 report 'Divestment: Advantages and Disadvantages for the University of Cambridge',[51] the response was similar to the findings presented to the Working Group as regards the impact on the investment model. The executive summary of the report states that 'the Investment Office explains that a policy of full divestment would necessitate a change in investment model, which would eliminate its ability to achieve above-market returns.' After the report was issued to the University Council, a new modelling strategy was proposed that allowed for full

[51] https://www.cam.ac.uk/sites/default/files/sm6_divestment_report.pdf

fossil fuel divestment to be achievable over a 10-year period without changing the investment model of CUEF. We are aware that the circumstances affecting investment in fossil fuels is very different from that in the 'defence industry', especially because the transition away from fossil fuels means that investment in companies which extract fossil fuels is much less financially advantageous. Investment in the 'defence industry' is different, but we note that the experience as regards divestment from fossil fuels has meant that we have considered whether some form of divestment from the 'defence industry' might be possible without changing the fund of funds investment model. Indeed, recent suggested changes of investment policy by UCIM[52] relating to companies which manufacture certain types of weapon, justifies consideration of investment policy without needing to change the underlying investment model.

112. Working on the assumption that it is in the University's interest to operate within the existing investment model, we have considered whether we can identify a 'carve out' for investments based on ethical considerations, (reflecting what we consider to be the charitable purposes of the University, its mission and its values) but without jeopardising the fragile financial circumstances of the University. We have been assisted in our deliberations by reviewing the approaches of some other universities and institutional investors.

(h) The position in other universities

113. Beyond Oxford and Cambridge, most UK university endowments are very small, are invested passively in index-tracking funds which are easy to screen and are not meaningful contributors to the institutions' overall income. Our investigations indicate that a number of UK universities exclude investments in arms manufacture,[53] some exclude investment in

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[52] See paras. 122-123, below.

[53] See, for example, University of Birmingham (https://www.birmingham.ac.uk/university/social-responsibility-sustainability/ethical-investment-and-finance); University of Liverpool (https://www.liverpool.ac.uk/media/livacuk/commsec/Ethical,Investment,Policy.pdf).

companies which sell armaments to military regimes[54] or in controversial weapons.[55] Nineteen out of the 24 Russell Group universities make some weapons exclusion in their investment policies.

114. Since 2010 Oxford University has excluded[56] direct investment in companies which manufacture arms that are illegal under UK law and since 2021 investment in funds which invest primarily in such companies.

115. We are aware that the University of Oxford has been conducting its own review, albeit one confined to investment only. Its terms of reference are:

> '…an accelerated University wide review of the current prohibition on direct investments in companies manufacturing arms that are illegal under UK law (introduced in 2010) as well as investment in funds which invest primarily in such companies (introduced in 2021), and to consider continued appropriateness of the restrictions or whether it should be extended.'

116. We have also reviewed some US University endowments which can be considered peer institutions including the nine largest US University endowments, with reference to publicly available information on exclusions. Only a very small number have weapons restrictions and, in some cases, they concern retail firearms in context of campus/school shootings. Some US endowments have recently re-examined their policies in light of student protests. Yale's Advisory Committee on Investor Responsibility concluded that military

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[54] University of Durham (https://www.durham.ac.uk/media/durham-university/about-us/environmental-social-and-economic-sustainability/policies/Ethical-Investment-Policy-July-2023.pdf).

[55] Queen's University, Belfast (https://www.qub.ac.uk/about/Leadership-and-structure/filestore/responsbile-investment-policy.pdf); King's College London (https://www.kcl.ac.uk/assets/policyzone/finance/ethical-investment-policy.pdf). See also University of York: https://www.york.ac.uk/media/abouttheuniversity/governanceandmanagement/governance/ethicscommittee/Statement-on-Responsible-Investment-May-2025.pdf.

[56] The University also excludes investment in tobacco companies and fossil fuel exploration and extraction companies.

weapons manufacturing for authorized sales did not meet the threshold of grave social injury, a prerequisite for divestment because this manufacturing supports socially necessary uses, such as law enforcement and national security. But it did exclude 'assault weapons manufacturers that engage in retail activities to the general public'. Harvard University recognises that 'very rare occasions may arise when companies' activities are so deeply repugnant and ethically unjustifiable as to warrant the University's institutional dissociation from those activities'. Harvard, Stanford, Princeton, MIT do not exclude controversial weapons. In 2024 Cornell rejected a resolution to divest from nine companies associated with weapons manufacture. It should, however, be noted that there are legal and regulatory differences affecting universities in the UK and USA and also different governance structures.

(i) The approach of other institutional investors

117. We are aware that the Wellcome Trust has no specific armaments restriction but is restricted from investing in any illegal activity.

118. The USS excludes investment in controversial weapons 'such as cluster munitions, white phosphorus, and landmines (largely because they aren't legal in many jurisdictions)'. It has also said that 'Russia's invasion of Ukraine also reinforced the role the defence industry sadly has to play in protecting freedoms and supporting geo-political stability. It is a sector that might not align with some of our members' views, but (noting the controversial weapon exclusions given above) it is part of the investible universe.'

119. A number of large European asset owners and funds, including Nordic asset owners, have controversial weapons exclusions. The Norwegian sovereign wealth fund[57] excludes companies which contribute to or are responsible for 'the sale of weapons to states engaged

[57] https://www.nbim.no/en/responsible-investment/ethical-exclusions/.

in armed conflict that use the weapons in ways that constitute serious and systematic violations of the international rules on the conduct of hostilities' and 'the sale of weapons or military materiel that are subject to investment restrictions on government bonds'. Some European asset owners have narrowed or adapted weapons exclusions to enable defence financing in a European national security context. Further, at the request of the EU, the European Investment Bank can now finance some conventional weapons.

(j) Formalising exclusions

120. The CUEF has no statement of exclusions of investments relating to the defence industry or the manufacture of particular types of weapon. We were informed by UCIM that the fund has no direct or indirect investments in any company which manufactures illegal weapons. There is, however, no formal statement of exclusion to this effect. We do not wish to make recommendations which undermine the existing investment model and wish to avoid imposing long lists of specific exclusions which would have that effect, but we consider that it is appropriate for the University of Cambridge to adopt some additional exclusions.

121. Consequently, we recommend that the University of Cambridge should formally exclude investment in any company which manufactures weapons which are illegal by English law, even if these weapons are legal in the country of manufacture, what we call for the purposes of this report 'controversial weapons'.

122. Prompted by our discussions, UCIM has proposed an illegal and controversial weapons exclusions policy.[58] UCIM would not invest directly or through third parties in any company which manufactures weapons which are illegal under English law. UCIM defines 'controversial weapons' as encompassing anti-personnel mines, biological weapons, blinding laser weapons and undetectable fragments, chemical weapons, cluster munitions and

[58] See Annex 4.

incendiary weapons. These are classified as ‘controversial weapons’ rather than ‘illegal weapons’ because they are not necessarily illegal in all countries and so are not excluded by all third-party investors. UCIM’s analysis shows that the CUEF’s exposure to controversial weapons is negligible and moreover is attributable only to the small portion of its portfolio which employs funds that seek to track a specific index, or through funds that themselves invest in index-related products.

123. UCIM has also informed us that it will undertake the following actions:

(i) Active managers: no exposure to controversial weapons has been identified within this group. Index-related products held by such managers within their own portfolios will be excluded from its proposed exclusion policy. In any case, exposure to controversial weapons arising from such indirect index positions is expected to be negligible. UCIM will instigate an annual audit of controversial weapons exposure.

(ii) Index investments: UCIM proposes to replace its long-term index investments with screened products which exclude exposure to controversial weapons. ‘Long-term index investments’ are defined as investment positions anticipated to be held for six months or more. Short-term positions held for portfolio management purposes will be excluded from its proposed exclusion policy. In any case, exposure to controversial weapons arising from such short-term positions is expected to be negligible.

(iii) Compliance with the proposed policy will be monitored and reported annually to the CUETB.

124. We thank UCIM for this policy and recommend that it be adopted.

125. Everything up to this point in this report has received the unanimous support of the members of the Working Group. Whether we should make recommendations which go further than this is not something about which we have been able to agree. However, we all

agree that it is essential that our recommendations should not jeopardise the fund of funds model of investment and should not result in financial detriment to those who invest in the CUEF. Bearing in mind these vital red lines, our views have fallen into three camps.

126 (1) That it is inappropriate for the University, as a public institution in the United Kingdom, to restrict investments in companies involved in the manufacture of conventional weapons during a period of increasing risk to the security of the United Kingdom and its allies. Further, that maintaining the fund of funds model and avoiding financial detriment means that there should be no policy of exclusion of investments in companies which manufacture conventional weapons. Nevertheless, recognising the sensitivity of investments in conventional weapons, UCIM should monitor the exposure of the CUEF to such investments and, should it exceed 1%, a transparency report should be submitted to the CUETB for review, including details of all relevant companies. UCIM should implement and publish a detailed Responsible Investment and Transparency policy setting out this approach, the other commitments which have received the unanimous support of the Working Group, and its broader approach to ethical investment on behalf of the CUEF.

127. (2) In the light of the practice adopted by other investors, such as the Church Commissioners, but also with regard to the values of the University and wider ethical considerations, an investment strategy of seeking to minimise investment in companies which primarily manufacture conventional weapons should be adopted with the formal introduction of a 1% carve-out. Further, UCIM should be encouraged to work to ensure that exposure to companies which primarily manufacture conventional weapons falls below 1% at all times and is kept as low as possible but, crucially, whilst ensuring maintenance of the fund of funds model and (consistent with the legal obligations imposed on charity trustees of the University) without jeopardising the financial return from the CUEF, for the benefit of the University of Cambridge and other investors.

128. Crucially, this approach is adopted because those who support it do not wish to see a significant expansion of investments in conventional weapons. UCIM has informed us that such an approach would compromise the fund of funds model and is likely to cause significant financial detriment to those who invest in CUEF compared to the level of financial return likely to be achieved without such an approach being adopted.

129. (3) Others wish to adapt the approach adopted in option 2. While they similarly do not wish to see any significant negative implications for the returns of the CUEF they deem it more appropriate to begin from a position that the University should not invest in any company which manufactures any weapons (for reasons of institutional values and ethical considerations). The divestment process should be overseen by CUETB under the direction of the University Council to ensure that the sustainability of the CUEF, for the benefit of the University of Cambridge and other investors, is not jeopardised. Should it be found that the sustainability of the CUEF is compromised, measures should be put in place by CUETB to establish a progressive timeline of exclusions to ultimately lead to full divestment. UCIM has informed us that this approach will fail from the start because the fund of funds model cannot operate in such circumstances and there will inevitably be a financial detriment to those institutions which invest in the CUEF if such a policy was adopted. Some members of the Working Group are not convinced that complete divestment is incompatible with maintaining the fund of funds model nor that full divestment will result in significant financial detriment to the CUEF.

130. Since we have not been able to resolve the disagreement amongst us we are unable to make any formal recommendations as to whether any restrictions involving investments in companies which manufacture conventional weapons should be implemented. However, since each of the options make reference to conventional weapons, we explore in the next paragraph how such weapons might be defined.

131. Further work will be required to define satisfactorily conventional weapons. We have considered this, but a workable definition will require more analysis and consultation. The definition might encompass: companies producing nuclear weapons and weapons for military use, including munitions, vehicles designed to carry military weapons (mounted or demountable), weapons delivery systems and guidance systems. This definition is derived from the FTSE TPI exclusionary index which is presently used by the Cambridge Multi-Asset Fund. The Advisory Group, the creation of which we propose later in this report,[59] could be tasked with considering a workable definition of conventional weapons and it should be tasked with keeping this definition under review.

132. If the Council decides to support either options 2 or 3, and this is supported by other stakeholders in the CUEF, it will be important that UCIM's annual reports to all investors in the CUEF should make substantial reference to its compliance with this investment policy and also reflects on the impact on the fund of funds model and the investment return arising from this investment policy.

133. Ultimately it will be for the Council to determine which of the three options it prefers. However, we wish to emphasise that it will be vital when making this decision to reflect on the impact on the fund of funds model and the risk of financial detriment being suffered by the University.

(k) Future analysis of ethical engagement

134. We are aware that CUETB was explicitly established for the purpose of considering the legal and regulatory environment relating to investments and the impact of ethical considerations on investment policy and strategy. However, we are concerned about the need to ensure that the views of the wider University community are taken into account by

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[59] See para. 135.

CUETB in order to foster greater transparency and trust. We are also conscious that discussions about investments in fossil fuels and the manufacture of weapons has taken much time and resource over the last six years. There will be other issues arising in the future about investment strategy, most significantly as regards investment in companies which are engaging with countries which are found to be in violation of human rights or in contravention of international law. We have received representations about such investments but detailed consideration of this falls outside our terms of reference. But there is a need to find a way for concerns about such investments to be considered and assessed. We also note that the definition of what is considered a controversial or conventional weapon may change in the light of rapidly evolving technological advancements, particularly in artificial intelligence, which will require consideration of whether the definition of particular types of weapons for investment purposes should be expanded.

135. Consequently, we recommend the creation of a new advisory body which will be a sub-committee of the University Council, with its members appointed by the Council, which would report directly to the Council and, to the extent that its recommendations relate to the CUEF, its report would be sent to the CUETB, but decisions about investment policy relating to the CUEF should still be made by the CUETB. The function of this advisory body will be to reflect on ethical investment by the University, encompassing reviewing the University's statement of investment responsibility, investment in the multi-asset fund and also investment in the CUEF. The members of the new advisory body should be drawn from across the University, including representatives of the student body and representatives of other stakeholders in the CUEF.[60] Some of its members should have expertise in finance, law and regulation as well as geo-political, human rights and ethical expertise. This body should be

[60] We note that the University of Oxford has an Ethical Investment Representations Review Subcommittee, which is an advisory committee which reports to the Investment Committee, and which has academic and student representation on it.

called the Ethical Investment Advisory Group. The recommendations of this group should be public to the members of the University.

Recommendation 3

We reject the focus of our terms of reference on the Defence Industry. Such a focus is at odds with the national significance of defence and investment in defence, which is widely defined. Rather, the focus should be on investment in companies which manufacture particular, or any, weapons.

Recommendation 4

The University of Cambridge should formally exclude investment of any funds, either directly or indirectly, in any company which manufactures weapons which are illegal by English law, even if these weapons are legal in the country of manufacture, so called 'controversial weapons'. Controversial weapons should be defined as, to the extent that they are illegal by English law, cluster bombs, land mines, depleted uranium weapons, nuclear weapons, chemical and biological weapons, blinding laser weapons, non-detectable fragments and incendiary weapons (white phosphorus).

Recommendation 5

CUETB's Responsible Investment Statement should be updated to exclude investment in controversial weapons.

Recommendation 6

The Council should reflect on whether a new body is required to reflect on ethical investment (or whether CBELA could discharge this role) and to make recommendations to the Investment Advisory Board and the CUETB, noting that decisions about investment policy will still be made by the CUETB.

Recommendation 7

The implementation of our recommendations and the approach being adopted to investments in companies which manufacture weapons should be reviewed after five years.

5. RESEARCH

136. As regards the research strand of enquiry our terms of reference require us to consider whether the University's guidelines/principles that inform its research funded by companies belonging to the defence industry are in line with its institutional values. In assessing this issue we have been required to take into account that the University encourages collaborations and believes that openness is integral to its success as a world-leading research-intensive University.

137. Our findings and recommendations relating to investment are significant to our consideration of the research strand. In particular, we consider that the focus should especially be on engagement with companies which manufacture controversial weapons as we have defined them for the purposes of this report, for reasons we outline below.

(a) Impact of exclusions on research at Cambridge

138. In the course of our meetings we obtained evidence about the engagement of University researchers with the 'defence industry' broadly defined.

139. We are aware of the vital importance of Cambridge research which is being pursued in the national and international interest which may have defence applications, but which is dual use and responds to global challenges such as nuclear energy research and decarbonisation.

140. The School of Technology reported that 15-30% direct contract industrial funding out of £15 million industrial research expenditure pa. (£2.225-4.5 million) arises with companies which can be considered to be involved in defence in some way.

141. We particularly considered the role of the Whittle Laboratory in the Cambridge research ecosystem. Since its establishment 50 years ago, the Whittle Laboratory has had close collaborations with companies including Rolls Royce, Mitsubishi Heavy Industries, Boeing and Airbus, some of which might be considered to form part of the 'defence industry' sector. According to the Head of the Whittle Laboratory the insight from these companies helped to make the Whittle the most successful academic lab in gas turbine research and contributed towards two of the Department of Engineering's REF impact case studies. The focus of the Whittle's current research is carbon reduction and the work covered by the two impact case studies represents a reduction amounting to 20 times the University's Scope 1 and 2 emissions (largely through impact on Rolls Royce jet engines). In 2018 the Whittle held almost 10% of the University's industrial research funding (although this will fluctuate over time), most of which was from companies that would likely meet the definition of defence industries, but for research supporting the decarbonisation of aviation. Of the Whittle's ten Faculty members, five are funded by industrial funding, and such funding also supports several administrative and technical staff. The new Whittle Laboratory is expected to open in December 2025 and will focus on decarbonisation.

142. The focus of the Government on defence-related research by virtue of the need to secure national security and increase defence spend has an impact on researchers in Cambridge. For example, the Turing Institute has been informed[61] that it should focus on

[61] Minister tells UK's Turing AI institute to focus on defence - BBC News

defence-related research. Many Cambridge academics are seconded to the Institute, including its chief scientist.

143. The University has been a member of multiple consortia for 'nuclear' Centres for Doctoral Training in the recent past (the last cohort of the Nuclear Energy Futures CDT starts in October 2025). The standard model by which PhDs have been funded in these CDTs is co-funding between the Engineering and Physical Sciences Research Council (EPSRC) and industry with 50% of the studentship funding coming from the EPSRC CDT grant and 50% from an industry sponsor. Any potential industrial sponsor in the UK nuclear civil and defence sectors would be designated a 'defence sector' company. If the University decided to cease such research, this would make participation in a nuclear skills Doctoral Focal Award ('DFA') impossible and would directly and negatively impact on PhD opportunities for students at Cambridge, according to the Head of the School of Technology. The University has been successful in receiving a DFA in nuclear skills for the UK nuclear civil and defence sectors starting in 2026. This funding opportunity arises from the National Nuclear Strategic Plans for Skills.[62] It is anticipated that funding will be provided by the Ministry of Defence and the Department for Energy Security and Net Zero. The funding opportunity is to train the next generation of researchers and innovators in cutting-edge nuclear skills, leading to careers in the UK nuclear sector. These skills will support UK priorities including:

- large scale gigawatt reactors and advanced technologies such as small modular reactors and advanced modular reactors. Future designs will improve safety, sustainability, efficiency, and cost, with more potential for cogeneration of vectors such as hydrogen and heat;

[62] National Nuclear Strategic Plan for Skills.

- national and international nuclear defence commitments, critical to the UK's national security.

144. We have investigated the approach adopted by other Russell Group universities to research involving the defence industry. Information has only been obtained from 12 of the 24 Universities. Most do not have a specific defence related policy but some are working on developing such a policy. Some do have an ethical framework policy but without reference to defence or the manufacture of weapons.[63] A few[64] do have specific policies which are supportive of engagement in research in defence and security but with regard to an overarching ethical framework. Some others make specific reference to limitations on such research, such as the University of Warwick's exclusion of research on 'offensive weapons'.

(b) Individual researchers

145. We consider that the University should not prohibit individual researchers from engaging with whatever research project they wish to undertake, and therefore whatever source of funding that is available to them, as long as that research and associated funding is legal.

146. We have reached this conclusion for various reasons, but primarily because of the fundamental importance of academic freedom as a core value of the University, and one which the University is under a duty to secure under the Higher Education (Freedom of Speech) Act 2023.

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[63] Such as the University of Southampton: https://www.southampton.ac.uk/about/governance/regulations-policies/policies/responsible-collaboration-statement

[64] Such as UCL, Imperial College London, the University of Sheffield and the University of Manchester: https://www.manchester.ac.uk/about/defence/

147. The guidance of the Office for Students relating to this duty states:[65]

> Staff and students should be free to undertake academic research within the law. This freedom should not be restricted or compromised in any way because of a perceived or actual tension between: a. any conclusions that the research may reach or has reached or the viewpoint it supports, and b. the organisation's policies or values. Nor should it be restricted or compromised in any way because of any external pressure connected with a.

148. Consequently, we conclude that the University should not prevent researchers from participating in research related to the manufacture of any weapons save where those weapons are illegal under English law. Consistent with our approach to the definition of weapons we consider it appropriate for the University to state that it would also expect individual researchers not to conduct research which is directly related to the manufacture of controversial weapons where this manufacture is not illegal in the country of manufacture but is illegal by English law, but this should only be expressed as an expectation and not a prohibition from conducting such research.

149. We note in particular the vital importance of individual researchers complying with the law on export control.[66] This provides a system for the control of the export of arms from the UK, including by UK companies, as well as 'dual-use items' which may have a civilian use as well as a military use or use as weapons of mass destruction (nuclear, chemical, biological). The regime also includes restrictions on the end-use of items and the identity of end-users.

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[65] Regulatory advice 24: Guidance related to freedom of speech - Office for Students.

[66] Under the Export Controls Act 2022. See further UK strategic export controls - GOV.UK.

(c) Review of institutional partnerships

150. At an institutional level we consider that it is appropriate for the University to develop a review process for proposed research funding partnerships between the University of Cambridge and companies which are involved in the manufacture of weapons. The following proposal is at a high-level and is not designed to be a comprehensive procedure. It will require consultation before adoption, particularly consultation with the committees identified as forming part of the procedure.

151. The proposed process is designed to operate within existing University oversight procedures and structures, in particular CBELA and the AGRP. The process is designed to respect academic freedom and is therefore focused on proposed institutional strategic research funding partnerships and would not apply to projects associated with individual Principal Investigators.

152. Institutional strategic research funding partnerships are difficult to define, but a working definition, subject to consultation, is that they involve research funding for projects for which the Principal Investigator is an institutional officer (such as Head of Department, Head of School, Pro-Vice-Chancellor) of the University and acting on behalf of the University in that capacity, rather than acting as an individual researcher. An alternative definition might be one where the University itself owns IP related to the project rather than individual researchers.

153. A list of companies which manufacture weapons will be maintained by the University. All institutional strategic research funding partnerships involving companies on the list will need to be assessed against the approval process outlined below (or similar) before they can be agreed.

154. Affected partnerships will be identified and referred to the CBELA process under existing Research Office and CUDAR procedures.

155. Upon referral to CBELA, they will be referred to the AGRP. Partnerships will be assessed by the AGRP core membership and a specialist sub-panel with expertise relevant to defence research (including members recruited for technical understanding and members recruited for expertise in conflict and humanitarian impact of defence). To avoid conflicts of interest, those making such determinations should not themselves have relationships with the company in question. An AGRP review will be designed to establish:

A) Whether the partnership is likely to result in military technology and if so:

    i. The likelihood of this occurring.

    ii. The potential military uses of the technology and in what kinds of scenarios it is likely to be deployed.

    iii. The potential social, economic, health and environmental harm that such technology could produce, if any.

B) Whether the partnership is likely to result in beneficial civilian (i.e. non-military) outcomes and, if so, an assessment of the potential benefits of these.

C) Whether the UK government is involved in the partnership as a funder or collaborator.

156. The report of the AGRP will be received by CBELA together with details of the proposed partnership.

157. Any partnership in which the UK government (or UK government agency) is involved as the funder or a collaborator will be approved at this stage.[67] For all other partnerships, CBELA will make a judgement whether to approve or not based on the AGRP report and its

[67] Two members do not support this sentence.

judgement as to the reputational risk posed by the partnership taking into account the full range of issues to be considered (including those considered by AGRP). This will be in addition to the legal compliance requirements placed on all agreements undertaken by the University.

158. Where institutional partnerships are found to have beneficial civilian outcomes, it will be important to consider whether it is appropriate to include a clause which would prevent the use of the research outcome for military purposes. There are some existing such clauses in use in University contracts between the University and industrial partners, usually used for projects where there is potential for export control relevance. It should be noted that such clauses can only be used in circumstances where the University uses its own contract templates. Sector-level templates (often used for inter-University consortia) and funder-provided templates are unlikely to be amendable to include such clauses. In addition, the inclusion of any such clause is subject to negotiation with the institutional partner and there may anyway be circumstances where the benefit to the military from conducting the research is considered to be appropriate.

159. We also recognise that any decision to adopt such clauses as standard in appropriate University templates (i.e. those for projects in disciplines where military use is most likely) would require additional resource to handle revision of templates, development of processes to identify contracts for which such clauses should be used, and at the contract negotiation stage. It is also possible that the inclusion of such clauses may cause some contracts to be delayed, which could be particularly detrimental to studentship contracts. As such, we recommend that the University reviews the use of such clauses, with the view to widening their use, where appropriate, while balancing against the resource and time cost.

160. Whilst it falls outside our terms of reference our discussions have touched on whether there are any companies with which the University should not engage because of evidence of

their violation of international norms, particularly the violation of human rights. Some of our number have suggested that the remit of the Ethical Investment Advisory Group should encompass the conduct of such companies. Since this falls outside our terms of reference we do not make any specific recommendations relating to this issue.

161. Similarly, another area of concern to some members which has emerged in our discussions relates to research collaborations with companies and institutions based in particular countries. Currently, CBELA has mandated early discussion with its Secretary of proposed engagements with individuals or entities from some regions, many of which CBELA then reviews. These are: former Soviet countries (except the Baltic states), the People's Republic of China, the UAE and Saudi Arabia. This mandate was last reviewed in June 2022. Further engagement with this issue also lies outside our terms of reference, but we would encourage CBELA to review this mandate regularly.

Recommendation 8

The University should not prevent researchers from participating in research related to the manufacture of weapons save where that research is illegal under English law.

Recommendation 9

The University should state that it expects, rather than requires, individual researchers not to conduct research which is directly related to the manufacture of weapons which are legal in the country where they are manufactured but would be illegal under English law, so-called 'controversial weapons'.

Recommendation 10

A review process should be developed for proposed institutional research funding partnerships between the University of Cambridge and companies which are involved in the manufacture of weapons.

Recommendation 11

The University should review the use of clauses relating to restrictions on the use of research for military purposes, with the view to widening their use, where appropriate, while balancing against the resource and time cost.

SUMMARY OF RECOMMENDATIONS

Recommendation 1

The University Council should include a statement of the University's charitable purposes on the web page which describes the University as a charity.

Recommendation 2

The University's Statement of Investment Responsibility needs to be updated to reflect the University's policies on fossil fuels and also the other recommendations in our report.

Recommendation 3

We reject the focus of our terms of reference on the Defence Industry. Such a focus is at odds with the national significance of defence and investment in defence, which is widely defined. Rather, the focus should be on investment in companies which manufacture particular, or any, weapons.

Recommendation 4

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ANNEX 1

Witnesses

Doug Chalmers, former Deputy Chief of Defence Staff; Master of Emmanuel College

Dr Ivan Collister, First Bursar, King's College, Cambridge

Eline Elzinga, Wellcome Investments

Haydee Dijkstal, Chief Counsel (External) at the International Centre of Justice for Palestinians and Head of International Law at 33 Bedford Row Chambers

Tilly Franklin, CEO and Chief Investment Officer of Cambridge University Investment Management Ltd

Dr Andrew Jackson, Director of Research Services

Mark Lewisohn, Chair of the Cambridge University Endowment Trustee Body

Professor Robert Miller, Director of the Whittle Laboratory

David Mossley, head of Research Collaboration Advisory Team in the Department for Business, Energy and Industrial Strategy

Mira Naseer, Legal Officer at the International Centre of Justice for Palestinians

Dan Neale, Responsible Investment Social Lead, Church Commissioners for England

Anthony Odgers, Chief Financial Officer, University of Cambridge

David Parsons, Head of Legal Services, University of Cambridge

Professor Richard Penty, Head of the School of Technology

Oliver Prague, Programme Director, Military, Security and Police, Amnesty International UK

Dr Regina Sachers, Director of Governance and Compliance

ANNEX 2

Consultation with the University community

The Working Group undertook various steps to gauge the views from the University community on the issues at hand. First, several staff and students were invited by members of the Working Group to a closed meeting where they were able to provide personal testimonies on their views regarding the work of the Working Group. Second, an open Town Hall was organised that was open to up to 400 staff and students at the University. In addition, a form was circulated to allow people who had attended the Town Hall to contribute written statements that were then compiled, categorised and shared with members of the Working Group.

Closed meeting

At the closed meeting, the Working Group heard from ten guests drawn from a range of backgrounds and disciplines. At the meeting the Working Group heard:

- First and second-hand testimony of the impact of war in Gaza, Lebanon and elsewhere and the role of arms companies in these wars.
- The case that University financial investments directly contributed towards war.
- Arguments that arms companies actively damage education and literacy and that collaboration with such companies works against the University's educational mission.
- Personal testimony from individuals that University links to arms production negatively impacted their view of the institution and had an impact on their own mental health and wellbeing.
- Argument that divestment was necessary to maintain the University's moral leadership and that divestment was considered to be widely supported among the postdoctoral research community.

- Arguments that the University should continue to work with defence companies on non-defence related research or where the research was in the interests of the broader community.
- Case studies of how defence company funding supports research and researchers in the University working on defence and non-defence projects.
- Arguments that the University's mission should include supporting UK national security and the role of defence research in that role.

Town Hall

Around 400 staff and students attended the open Town Hall on 23 June 2025 and over 30 were given the opportunity to speak within a two-hour period. It is noted that attendees at the Town Hall were self-selecting and not representative of the entire University community. Nonetheless, the Working Group heard a range of views from those who contributed.

The majority of speakers spoke in favour of the University divesting from and/or ending its research partnerships with companies producing arms. A significant proportion of these cited recent geopolitical events, particularly relating to Gaza, as the justification for this position. Messages heard by the Working Group included:

- An argument that the University must take steps to ensure that it does not aid or abet war crimes and arguments that the University was complicit in violence and/or genocide.
- That the University should end any links to Israel.
- That the Working Group's remit should be expanded from a focus on 'defence companies' to wider issues of human rights.
- Personal testimony from individuals that University links to arms production negatively impacted their view of the institution and had an impact on their own mental health and wellbeing.

- That the University was not upholding its values as its current investment and research policies negatively impacted members of the University from minority backgrounds.
- That the arms industry contributed towards climate change.
- Arguments that the University should undertake defensive research, but not offensive weapons research.
- Case studies of research funded by defence companies that supported sustainability and other non-military uses.
- That the University should maintain academic freedom, while acting with consideration and restraint.
- Case studies of individuals who felt pressured to work with defence companies.
- That the damage caused by weapons companies to education around the world conflicted with the University's mission and values.
- The importance of the University's contribution to national defence of the UK.
- An argument that it was important to separate University links to UK national defence from University links to international arms companies.
- The importance of the University's decision for its legacy.

Written survey

The Working Group received 439 responses to the form that was circulated to all those who registered to attend the town hall. As for the town hall, it is noted that respondents were self-selected and are not representative of the whole University community. Of the responses 38% were received from students, 22% from staff, 4.5% from alumni and 35.5% did not provide information on their status. The majority (just under 70%) of respondents were generally opposed to investments in and research collaboration with the defence industry. Just over 11% of respondents supported or conditionally supported continuation of University

investment in and research collaboration with the defence industry, while another 15% supported or conditionally supported continuation of University research collaboration with the defence industry only. The remaining respondents provided either neutral or ambiguous responses or responses primarily to provide points of information. The Working Group received all the responses submitted, together with a high-level summary and analysis of the responses.

Through consideration of the responses the Working Group heard:

- Testimony from researchers working with or who supported working with defence-related companies regarding the non-military benefits that such collaborations had brought.
- The difficulties of finding a definition of defence companies that would not have significant impacts on University research.
- The importance of national security and the potential for the University to influence defence companies through partnership.
- The importance of academic freedom and individual choice in research collaboration.
- The financial importance of industrial funding and investment to the University.
- The potential for the University to continue engagement with defence companies by placing limitations on the types of research undertaken, adherence to international law, a threshold for turnover from defence activities, extent of involvement with certain regimes, review of companies or a focus on defensive over offensive research.
- That investment in or research collaboration with defence companies is contradictory to the University's mission and values.
- The educational institutions must take steps to avoid enabling violence.
- That the University should not involve itself with weaponry and should focus on being a bastion for peace and creating knowledge for the betterment of humanity.
- That investment in the arms industry is an active declaration of values.

- Testimony from some respondents that they saw the University, through its links to weapons companies, as complicit in genocide and that this had a significant impact on them and their health and wellbeing.
- That the University's reputation was negatively impacted by links to the weapons industry and could impact the University's ability to recruit staff and students, retain trust of the public and receive donations from alumni.

ANNEX 3

Text requested to be included in the report by the student representatives of the Task Force

Ethical considerations and alignment with institutional values

1. The Terms of Reference directed the Working Group to assess whether the University's current investment and research policies involving companies in the defence industry align with its institutional values. As part of this assessment, it was important to examine the ethical implications of maintaining relationships with companies involved in weapons manufacturing.

2. The UN Global Compact[68] and UN Guiding Principles on Business and Human Rights[69] establish international standards for responsible and sustainable practice. Cambridge Press and Assessment are a participant of the UN Global Compact. As a globally influential institution, the University's ties with arms manufacturers involved in conflict may place it at odds with these frameworks.

[68] https://unglobalcompact.org/what-is-gc/mission

[69] https://www.ohchr.org/en/publications/reference-publications/guiding-principles-business-and-human-rights

3. Multiple international bodies and human rights organisations have documented the involvement of arms manufacturers in activities potentially violating human rights and international law. A report by the UN Office of the High Commissioner for Human Rights (OHCHR), published in July 2025, identified weapons companies to be aiding Israel's occupation of Palestinian Territories, described in the report as involving alleged war crimes and breaches of international law.[70] Similarly, a Human Rights Watch report from August 2025[71] noted the use of munitions produced by companies such as Boeing in attacks on Gaza school shelters, which were described as 'unlawfully indiscriminate' under international humanitarian law. The University celebrated in October 2023 its 20-year partnership with the company.[72] In September 2025, Amnesty International[73] identified several arms companies, including Boeing, Lockheed Martin and Elbit Systems, companies falling under the definition of conventional weapons manufacture,[74] as enabling and sustaining 'Israel's unlawful occupation and its crimes under international law',[75] and recommended that institutions, including universities, end their associations with such entities.

4. A report co-authored by the University's Faculty of Education in partnership with the United Nations Relief and Works Agency for Palestine (UNRWA), examined the effects of conflict on education in Gaza.[76] The 2024 report recommended that upholding international humanitarian law is essential to ensuring access to education, calling for an immediate cessation of attacks on educational infrastructure and personnel. Continued relationships with

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[70] https://www.ohchr.org/en/documents/country-reports/ahrc5923-economy-occupation-economy-genocide-report-special-rapporteur

[71] https://www.hrw.org/news/2025/08/07/gaza-israeli-school-strikes-magnify-civilian-peril

[72] https://www.cam.ac.uk/news/cambridge-and-boeing-celebrate-a-20-year-partnership

[73] https://www.amnesty.org/fr/documents/pol40/0289/2025/en/

[74] It is of note that none of these companies manufacture weapons illegal in the UK. They do not fall under the definition of controversial weaponry used by this report.

[75] https://www.amnesty.org/fr/documents/pol40/0289/2025/en/, p. 4.

[76] https://www.educ.cam.ac.uk/centres/real/publications/Palestinian_education_under_attack_in_Gaza.pdf

companies linked to such attacks may raise questions about the University's adherence to its educational mission.

5. The impact of armed conflict on access to higher education, including to the University of Cambridge, has been observed directly. Students from Gaza, with unconditional offers to study at Cambridge for the 2025/26 academic year, were unable to commence their studies due to the closure and destruction of visa centres and exit crossings.

6. Reputational risk is a relevant factor within this context. The University community includes individuals from diverse global regions, some of whom have direct or familial experience of the consequences of armed conflict. Testimonies submitted to the Working Group described personal loss and distress linked to weapons produced by companies with which the University maintains financial or research ties.

7. Additional testimonies collected by the Working Group suggests that some University members experience discomfort or disillusionment due to perceived institutional engagement in the arms trade and by extension in armed conflicts. Several people expressed that they would be less likely to view the University favourably and to support the University, if current investment and research practices continue.

8. The University has committed to divesting from direct and indirect investments in fossil fuels by 2030 and does not accept research or philanthropic funding from fossil fuel companies whose business models do not align with net zero 2050, unless there are exceptional circumstances to do so. This policy recognises the importance of ethical considerations and the need to align the University's financial practices with its institutional values. This decision followed broad community advocacy. Advocates for a policy change wanted to ensure that the University's policies reflect its sustainability goals. The arms sector is linked to significant environmental impacts, with military activities and conflicts

contributing directly to global emissions; it is estimated that more than 5% of global emissions are associated with conflict and military operations.[77] The carbon footprint of the first 15 months of Israel's war on Gaza surpassed the annual emissions of 100 countries.[78]

ANNEX 4

UCIM policy statement on Controversial Weapons

Controversial Weapons: a policy based on UK Law

UCIM does not actively invest in Controversial Weapons (defined below), whether directly or via the CUEF's third-party fund managers, and has never done so since its inception. This document outlines a proposed policy designed to provide assurance to stakeholders on this topic going forwards.

UCIM's policy is based on relevant UK Law, as defined by the following conventions:

- The Hague Declarations of 29 July 1899
- The Conventional Weapons Convention 1981
- The Biological Weapons Act 1974
- The Chemical Weapons Act 1996
- The Landmines Act 1998
- The Cluster Munitions (Prohibitions) Act 2010

Based on the above, UCIM considers the following categories of weapons "controversial" and has determined that investment in companies producing such weapons would be illegal under UK law and hence would not meet UCIM's investment criteria.

- Anti-personnel Mines
- Biological Weapons
- Blinding Laser Weapons and Undetectable Fragments
- Chemical Weapons
- Cluster Munitions
- Incendiary Weapons

UCIM has defined the term "Controversial Weapons" because these weapons are not illegal in all countries and, therefore, are not excluded by all investors. Some major countries, including the United States, have not acceded to the international conventions listed above, while others, such as the Baltic states and Poland, are currently considering withdrawing from certain conventions. UCIM also notes that the definition of what is considered a weapon, controversial or otherwise, is rapidly evolving: technological advancements, particularly in artificial intelligence, could lead to the inclusion of new types of weapons in this category.

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[77] https://ceobs.org/estimating-the-militarys-global-greenhouse-gas-emissions/
[78] https://www.theguardian.com/world/2025/may/30/carbon-footprint-of-israels-war-on-gaza-exceeds-that-of-many-entire-countries

Implementation

Within its fund-of-funds model, UCIM invests predominantly through "pooled" investment vehicles run by unconstrained active asset managers ("active managers") who, unlike passive asset managers, carry out deep fundamental due diligence to select a small group of companies for their portfolios. UCIM invests only sparingly through index fund products or through funds which explicitly aim to track a specific index.

UCIM's analysis shows that the CUEF's exposure to Controversial Weapons is negligible and moreover is attributable only to the small portion of its portfolio which employs funds that seek to track a specific index, or through funds that themselves invest in index-related products.[1]

To provide additional reassurance to its stakeholders, UCIM will undertake the following:

- **Active managers:** no exposure to Controversial Weapons has been identified within this group.[2] UCIM will instigate an annual audit of Controversial Weapons exposure.
- **Index investments:** UCIM will replace its long-term index investments with screened products which exclude exposure to Controversial Weapons.[3]

Ongoing Monitoring and Reporting

Compliance with this document will be monitored and reported annually to the CUETB.

In the future, UCIM is planning to introduce a broader monitoring framework to provide further reassurance to its stakeholders; oversight will be provided by the CUETB.

[1] In order to carry out its analysis, UCIM is reliant on data provided by the CUEF's fund management partners and screening tools for underlying producers of Controversial Weapons provided by third-party providers.

[2] Index-related products held by such managers within their own portfolios will be excluded from this policy. In any case, exposure to Controversial Weapons arising from such indirect index positions is expected to be negligible.

[3] "Long-term index investments" are defined as investment positions anticipated to be held for six months or more. Short- term positions held for portfolio management purposes will be excluded from this policy. In any case, exposure to Controversial Weapons arising from such short-term positions is expected to be negligible.