S&P Global Ratings

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Second Party Opinion

DRAFT: London School of Economics and Political Science Sustainable Finance Framework

Feb. 9, 2022

The London School of Economics and Political Science (LSE) was founded in 1895 and is a top-ranked university for social sciences and management. It educates more than 50,000 students, both in person and online, from over 150 countries and employs about 3,300 staff. LSE's strategic vision is to be the leading social science university that has the greatest global impact. It aims to achieve this through a broad and diverse community of students and faculty, engagement with stakeholders and decision-makers in public policy and economics, and working to ensure a sustainable future.

In our view, LSE's Sustainable Finance Framework, published on Feb. 9 2022, is aligned with:

- ✔ Social Bond Principles, ICMA, 2021
- ✔ Social Loan Principles, LMA/LSTA/APLMA, 2021
- ✔ Green Bond Principles, ICMA, 2021
- ✔ Green Loan Principles, LMA/LSTA/APLMA, 2021
- ✔ Sustainability Bond Guidelines ICMA, 2021

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Issuer's Sustainability Objectives

LSE's sustainability objectives are driven by its vision to be the leading social science university with the greatest global impact. As sustainability is one of the most significant challenges facing the world, LSE aims to lead the way in building a sustainable future for the social sciences and to contribute to the global effort to tackle climate, ecological, and social challenges.

The school's three overarching priorities to achieve its vision and LSE 2030 strategy are to: educate for impact, by fostering a supportive, innovative, creative and inclusive community for life-long learning; research for the world, by cultivating thought leadership that contributes to debate on critical issues and to the betterment of society; and develop LSE for everyone, by establishing an inclusive community that attracts, retains, and engages students and faculty for life-long learning

The school's Sustainability Strategic Plan (SSP) feeds into one a key component of its LSE 2030 Strategy--creating a sustainable LSE. The SSP focuses on six key areas: embedding sustainability across teaching and learning experiences; shaping the global sustainability debate through research; deepening public discussion on sustainability across the world; making sustainability a key part of investment decisions; collaborating via working partnerships within LSE and externally; and reaching net-zero carbon and reducing environmental impacts.

Second Party Opinion Summary

Use of proceeds

Alignment ✔ LSE's Sustainable Finance Framework is aligned with this component of the Principles.

Score

Not aligned	Aligned	Strong	Advanced
		Strong	

LSE commits to allocating an equivalent amount of the net proceeds raised under its Sustainable Finance Framework to finance or refinance eligible green or social projects. Moreover, the framework clearly defines all eligible project categories, their associated eligibility criteria, and sustainability objectives, where relevant.

Process for project evaluation and selection

Alignment ✔ LSE's Sustainable Finance Framework is aligned with this component of the Principles.

Score

Not aligned	Aligned	Strong	Advanced
	Aligned		

LSE's framework clearly describes its two-step process to select and approve green and social projects. The issuer's Finance Management Board (FMB) is responsible for approving eligible projects and identifying and mitigating potential social and environmental risks associated with eligible projects. The school's Finance and Estates Committee (FEC) will also be responsible for approving and monitoring the projects.

Management of proceeds

Alignment ✔ LSE's Sustainable Finance Framework is aligned with this component of the Principles.

LSE commits to tracking the proceeds allocated to all eligible green and social projects until they have been fully allocated, and thereafter in case of any material change to the allocation. In accordance with the framework, unallocated proceeds will be invested in deposits, money market funds, and other similar products, in line with the school's treasury policy.

Reporting

Alignment ✔ LSE's Sustainable Finance Framework is aligned with this component of the Principles.

Score

Not aligned	Aligned	Strong	Advanced
	Aligned		

LSE commits to reporting annually on the allocation of funds across eligible projects and on metrics measuring the delivered impact associated with financed projects until full allocation of the proceeds. The report is expected to include certain impact indicators, with case calculation methodologies, key assumptions and, when relevant, case studies disclosed. Final allocation reports will be subject to a review by an independent third-party.

Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

✔ LSE's Sustainable Finance Framework is aligned with this component of the Principles.

Commitments score	Not aligned	Aligned	**Strong**	Advanced

We consider the framework's overall process for project selection and evaluation commitments to be strong.

LSE commits to using an amount equal to the net proceeds raised under its framework to finance or refinance eligible green and/or social projects. The school also commits to a three-year look-back period for refinanced projects, which we consider in line with market practice and a strength of the framework. Moreover, the framework mentions that LSE will disclose, where possible, the share allocated to financing or refinancing the proceeds raised under the framework, which we view as another strength.

Green project categories are aligned with the Green Bond and Loan Principles' eligible categories and comprise green buildings, energy efficiency and carbon savings, renewable energy (production and purchase of renewable electricity excluding unbundled certificates), clean transportation projects, sustainable water and wastewater management, pollution prevention and control, and terrestrial and aquatic biodiversity conservation.

Social projects are also directly linked to the Social Bond and Loan Principles' eligible categories such as socioeconomic advancement and empowerment and access to essential services. Both social project categories outline target populations to whom they intend to provide social benefits. However, even though the target population for the socioeconomic-advancement and empowerment-project category appears specific to the school's stakeholders, for example PhD students and staff, we consider that there is broader social benefit to the general population through advancement of the SDGs in research and education.

We view positively that the issuer has identified the relevant sustainability objectives for each of the eligible environmental and social projects with clear links to LSE's SSP. In addition, we view favorably that LSE has committed to disclosing the proportion of funds to be used for financing versus refinancing.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

✔ LSE's Sustainable Finance Framework is aligned with this component of the Principles.

Commitments score	Not aligned	**Aligned**	Strong	Advanced

We consider LSE's overall process for project selection and evaluation commitments to be aligned with the relevant principles.

The issuer's Sustainable Finance Framework clearly outlines its process of identifying and selecting eligible green and social projects.

Eligible projects will be evaluated and selected by the school's FMB, which consists of the school director, chief operating officer, chief financial officer (CFO), and pro-director of planning and resources. The FMB will meet six times per year to approve or reject projects in accordance with the eligibility criteria described in the framework. The FMB will also be responsible for ensuring that all eligible projects are aligned with LSE's strategic sustainability targets, the Sustainable Finance Framework, and internal policies and standards, as well as applicable environmental and social laws and regulations and market standards. In addition, the FMB will be responsible for assessing projects from an environmental and social risk management perspective and reviewing the asset pool to ensure continued eligibility throughout the life of the project. Furthermore, the FMB is committed to facilitating regular reporting in accordance with the framework's reporting commitments and managing future framework updates.

Eligible projects will also be approved and monitored by the school's Finance and Estates Committee (FEC) following their receipt of approval from the FMB. The FEC is a sub-committee of LSE's council composed of various independent council members, academic council members, the general secretary of the Students' Union, the school director, and the pro-director of planning and resources.

We view positively the identification of the FMB as the body responsible for evaluating and selecting eligible projects, as well as the school's well-defined eligibility criteria for green projects, which include criteria such as meeting the Building Research Establishment Environmental Assessment Method (BREEAM) standard of very good or better. We consider the social project eligibility criteria and especially the target populations, as well as the criteria for exclusion of projects, less clearly defined than what we have observed in stronger frameworks.

Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

✔ LSE's Sustainable Finance Framework is aligned with this component of the Principles.

We view LSE's framework as aligned with this component of the relevant principles because it commits to tracking the allocation (and nonallocation) of proceeds to each eligible project. LSE will determine the amount through its established financial reporting systems, which allow for detailed analysis of expenditure and cash receipts. This tracking will be performed by the CFO and reported to the FMB. The issuer has also committed to invest any unallocated proceeds in accordance with the school's standard treasury policy, which includes deposits, money market funds, and other similar products. Should a project be divested or identified as not meeting its eligibility criteria through monitoring by the FMB, LSE has committed to reallocating the proceeds, to the extent possible, to another eligible project.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

✔ LSE's Sustainable Finance Framework is aligned with this component of the Principles.

Disclosure score

Not aligned	**Aligned**	Strong	Advanced

We consider LSE's overall reporting practices to be aligned with the relevant principles.

The issuer commits to publishing annual allocation and impact reports until the net proceeds are fully allocated, and thereafter in case of any material change to the allocation.

The allocation reports will include the type of financing instruments used and respective outstanding amounts, the amount of proceeds allocated to each eligible project category for small projects, and by project for larger ones, the amount and/or percentage of new and existing products and financial line items, and any further information on how unallocated proceeds are being held.

In contrast, the impact reports will disclose impact indicators to reflect the actual environmental and/or social benefits of the eligible projects. These benefits may potentially be measured with relevant metrics such as, energy savings achieved in kilowatt hours, volume of water saved or reduced, annual recycling rate, and number of bicycle spaces.

We view positively that LSE commits to disclosing its calculation methodologies and key assumptions for its reporting metrics, as well as the issuer's intention to engage an external reviewer who will assess the alignment of the allocation of funds with the framework's criteria. We positively note that this verification report will be posted on LSE's website. That said, the framework does not outline a commitment to using and disclosing expected impact indicators, as we see in stronger frameworks. In particular, we believe the level of sophistication of the impact indicators for the socioeconomic-advancement and empowerment-project category is somewhat limited but reflects the still-nascent stage of the social financing market.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (ICMA's) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

LSE's Sustainable Finance Framework intends to contribute to the following SDGs:

Use of proceeds	SDGs	
Green buildings	***11. Sustainable cities and communities**	**13. Climate action**
Energy efficiency and Carbon savings	***7. Affordable and clean energy**	

Sustainable water and wastewater management	***6. Clean water and sanitation**
Renewable energy	***7. Affordable and clean energy**
Pollution prevention and control	***11. Sustainable cities and communities**
Terrestrial and aquatic biodiversity conservation	**11. Sustainable cities and communities**
Clean transportation	***11. Sustainable cities and communities**

Socioeconomic advancement and empowerment	***4. Quality education**	
Access to essential services	***4. Quality education**	***10. Reduced inequalities**

*The eligible project categories link to these SDGs in the ICMA mapping.