

SUBJECT	ENDOWMENT RESPONSIBLE INVESTMENT POLICY REVISION
MEETING DATE	JANUARY 31, 2019
Forwarded on the Recommendation of the President	
APPROVED FOR SUBMISSION	 <hr/> Santa J. Ono, President and Vice-Chancellor
FOR INFORMATION	
Report Date	January 15, 2019
Presented By	Peter Smalles, Vice-President Finance & Operations

EXECUTIVE SUMMARY

The first version of this policy was approved on June 4, 2013 by the Board of Governors. The second version, along with the Terms of Reference for the Endowment Responsible Investment Policy Committee, was approved in April 2014.

The Responsible Investment Policy was last updated in April 2014. The attached draft Endowment Responsible Investment Procedures require updating through input from the Endowment Responsible Investment Policy Committee. The Committee may wish to consider the form of the document, whether they should be a Policy (following UBC Policy consultation process) or a set of Procedures. A section on impact investing has also been added to incorporate the Sustainable Future Pool. Divestment Criteria also requires discussion and revision. Once the Committee has provided direction to staff, a formal legal review will be undertaken at which time the document will be brought back to the Committee for approval.

Attachments

1. Draft Endowment Responsible Investment Procedures
2. Endowment Responsible Investment Procedures (Approved April 2014)

STRATEGIC CORE AREAS SUPPORTED

- People and Places
 Research Excellence
 Transformative Learning
 a Local / Global Engagement

DESCRIPTION & RATIONALE UBC is committed to sustainability in investment. In 2013, UBC adopted its Responsible Investment Policy to direct UBC to consider environmental, social and governance (“ESG”) factors to make more informed investment decisions for the UBC Endowment. Such ESG factors have now become an integral part of the manager selection process for the Main Endowment Pool.

The Sustainable Future Pool ("SFP") was established in February 2017 as a separate pool of funds within the university's endowment. The SFP is a form of socially responsible investing, where the non-financial criteria of carbon-dioxide emissions is considered a performance criteria alongside investment returns.

The Responsible Investment Policy was last updated in April 2014. Since that time, additional legal work has been undertaken to help refine the approach to responsible investing. The attached draft Endowment Responsible Investment Procedures require updating through input from the Responsible Investment Policy Committee.

One of the first issues to discuss is the form of the attached document. Previously the document was called a Policy but UBC requires Policies to follow a strict consultation process. In their current form, the attached document is a set of Procedures.

The document has been generally updated and a section on impact investing has been added to incorporate the Sustainable Future Pool.

A second issue for the Committee to discuss is the Divestment Criteria. Legal advice is that UBC can only divest from endowment investments when doing so would maximize the risk-adjusted financial return of the endowment assets. The Policy previously had five divestment criteria.

Once the Committee has provided direction to staff, a formal legal review will be undertaken at which time the document will be brought back to the Committee for approval.

The University of British Columbia Endowment Responsible Investment Procedures

January 2019

1. GENERAL

- 1.1. This procedure focuses on the University Endowment, as the University Pension Plans have different governance structures with their own Boards.
 - 1.1.1. UBC's endowment fund investments are made in compliance with the *University Act of British Columbia* (RSBC 1996), the Endowment Management Policy (113) and the accompanying statements of investment policies and procedures (SIPPs) for the endowment pools.
 - 1.1.2. UBC through its Board of Governors is the administrator of the endowment pools in accordance with the *University Act* and is responsible for overall management of the Endowment.
 - 1.1.3. The Board of Governors has delegated certain responsibilities and powers for investing the Endowment to UBC's Investment Management Trust (IMANT).
- 1.2. The first version of this procedure was approved on June 4, 2013 by the UBC Board of Governors. The second version of this procedure (both previously referred to as policies) along with the Terms of reference for the Endowment Responsible Investment Policy Committee were approved in April 2014.

2. PURPOSE

- 2.1. The purpose of this procedure is to set forth UBC's commitment to responsible investment and outline UBC's approach to incorporating environmental, social and governance ("ESG") into its investment decisions.
- 2.2. UBC's responsible investment procedure should also be considered in the broad context of *its Vision to "... create an exceptional learning environment that fosters global citizenship, advances a civil and sustainable society, and supports outstanding research to serve the people of British Columbia, Canada and the world."* the University's Vision and Purpose: Inspiring people, ideas and actions for a better world and Pursuing excellence in research, learning and engagement to foster global citizenship and advance a sustainable and just society across British Columbia, Canada, and the world. As an expression of the university-University community, this vision

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embraces social responsibility; it guides and tests UBC's actions in all spheres of activity, including learning and practice.

2.3. These procedures will provide UBC and its external investment managers a framework to pursue responsible investing while satisfying their fiduciary duties.

2.3.1. Fiduciary duty refers to UBC's responsibility to invest prudently.

2.3.2. The primary fiduciary duty of UBC's Board of Governors (BoG) is to maximize the risk-adjusted financial return of the endowment assets.

3. RESPONSIBLE INVESTING

3.1. **Responsible investing** is an approach that aims to incorporate ESG factors into investment decisions in order to better manage risk and generate sustainable long term returns.

3.2. **Impact Investing** refers to investments "made into companies, organizations, and funds with the intention to generate a measurable, beneficial social or environmental impact (non-financial objective) alongside a financial return objective."

3.2.1. Investment decisions that incorporate non-financial objectives must be considered in the best interest of the university and aligned with UBC's vision and values.

3.3. **Divestment** or negative screening is an approach through which investors may express their dissatisfaction with the environmental, social or governance practices of a company, industry or a nation with the aim of influencing these practices by divesting or excluding such entities from the available investment portfolio and/or universe.

4. UBC'S BELIEFS

4.1. UBC believes that ESG factors can have a material impact on the long terms risk and return of a given investment, and that incorporating relevant and material ESG issues into the decision making processes is consistent with its fiduciary duty.

4.2. The integration of ESG factors into investment processes is expected to 1) decrease total portfolio investment risk relating to these factors and 2) increase risk-adjusted investment performance over time.

4.3. The importance of integrating ESG factors into investment processes necessarily varies with the nature (asset class) of the investment.

4.4. A policy of engagement is strongly preferred over exclusions, divestments and "negative screens".

5. APPLICATION OF UBC'S BELIEFS

5.1. UBC commits to incorporate ESG factors in its investments in the following ways:

- 5.1.1. **Manager Selection:** When selecting and evaluation investment managers, UBC commits to integrate ESG factors. All public equity managers must incorporate ESG considerations into their decision making.
- 5.1.2. **Investor Engagement:** UBC does not invest in companies directly, but rather through pooled funds, managed by external fund managers. Wherever possible, UBC will encourage its fund managers to use their proxy votes to encourage transparency on ESG policies, procedures and other activities.
- 5.1.3. **Direct Engagement:** While direct engagement with individual companies is not a practical option (as UBC does not invest directly in specific companies), where there is significant exposure to a company, industry, or nation that is facing a considerable ESG issue, UBC will encourage the investment managers to engage directly through available channels.
- 5.1.4. **Collective engagement:** On a selective basis, UBC will engage issuers, regulators and industry groups (through third parties) where it is believed that a collective approach to engagement will be more effective than direct engagement. UBC Investment Management Trust (IMANT) is a member of the Canadian Coalition for Good Governance (CCGG) which engages with Canadian-based equity issuers.

5.2. Impact Investing:

- 5.2.1. Sustainable Future Pool:
 - a. In February 2016, the Board of Governors established the Sustainable Future Pool (SFP), as a separate pool of funds within UBC's endowment. The SFP is a form of socially responsible investing, where the non-financial criteria of carbon-dioxide emissions is considered a performance criteria alongside investment returns.
 - b. UBC views the SFP to be in the best interest of the university and consistent with the university's leadership in sustainability, and donors may add trust funds to the SFP where they agree that those funds can be invested using non-financial criteria which are in the best interests of UBC. The SFP is viewed as part of UBC's vision of a "living lab" to understand if UBC can incorporate a higher level of sustainability into its investment processes in a prudent manner. The SFP aligns investment practices to core values, allows results to be tracked clearly, adds investment choice to donors and provides positive reputational impact among students, faculty and donors.

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5.2.2. Future endowment pools:

- a. Future endowment pools, where non-financial criteria (other than carbon-dioxide emissions) would be being considered as performance criteria alongside investment returns, may be considered if it is determined to be in the best interest of the university.
- b. Any proposal from UBC's stakeholders to establish such endowment pools must follow due process as outlined in these Procedures and in accordance with the Terms of Reference for the Endowment Responsible Investment Committee.

5.3. **Divestment:**

UBC, as trustee of charitable purpose trusts within its Main Endowment Pool, has a fiduciary duty to act in the best interests of the charitable purpose trusts, which is their best financial interests. Therefore, UBC can only divest endowment assets when doing so would maximize the risk-adjusted return of the endowment assets.

UBC can only divest UBC's Endowment investments in the Sustainable Future Pool when it is in the best interest of the University, which considers both financial interests and other criteria.

6. PROPOSALS FROM UNIVERSITY STAKEHOLDERS [NOTE: Proposals are currently for divestment only; but could be for new Impact pools. **Process for considering proposals needs to sit in this Procedure, not in the Terms of Reference. The Committee's TOR should still include the requirement for the committee to review the proposals.]**

6.1. The Endowment Responsible Investment Policy Committee shall review Responsible Investment proposals received from the Finance Committee of the Board or from University stakeholders as follows:

- 6.1.1. The Endowment Responsible Investment Policy Committee will review Responsible Investment proposals that have broad support from University stakeholders.
- 6.1.2. For the purpose of review of a proposal, University stakeholders will be defined in the following constituencies:
 - a. Students
 - b. Faculty
 - c. Staff
 - d. Alumni

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- 6.1.3. Any qualified Responsible Investment proposal will require:
- a. The specific actions proposed
 - b. In the case of a divestment proposal, a comprehensive case for divestment including:
 - i. A proven and overwhelming social, political, economic or environmental rationale supported by a body widely seen as competent and objective;
 - ii. Reasonable evidence that divestment is the best way to achieve the desired outcome;
 - iii. Illustration that the request is consistent with its other University relationships or a further argument to align other University academic activities with the request;
 - iv. The demonstration of a lack of alternative policies as effective at a lower cost or more effective at the same cost; and,
 - v. Consistency with the best interests of the University [to be defined].
 - c. In the case of a divestment proposal, evidence of support from at least two Constituencies via:
 - i. A referendum by the students of The University of British Columbia (as a system) that has achieved a majority (50% +1) and a quorum of at least 20% of eligible votes
 - ii. A referendum by the Faculty (across both campuses) that has achieved a majority (50% +1) and a quorum of at least 20% of eligible votes
 - iii. A referendum by the Staff (across both campuses) that has achieved a majority (50% +1) and a quorum of at least 20% of eligible votes
 - iv. A written request from the *alumni* UBC Board of Directors
- 6.1.4. Support for a Responsible Investment proposal, which shall include authentication of signatories must be collected during one academic year and delivered to the Board of Governors (Board Secretariat). Upon validation, a Responsible Investment proposal will be submitted to the Endowment Responsible Investment Policy Committee within 90 days.

7. STAKEHOLDER COMMUNICATION

- 7.1. UBC is committed to transparency regarding its responsible investing activities. UBC will report on its approach to responsible investing through its Endowment Investment Reports.



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8. GOVERNANCE

8.1. The Board of Governors, through its Finance Committee and Endowment Responsible Investment Committee, is responsible for monitoring the application of these Responsible Investment Procedures.

8.1.1. The Endowment Responsible Investment Committee is a working group mandated to advise the Finance Committee of the Board of Governors on matters of responsible investment procedures.

a. The Endowment Responsible Investment Committee shall review and recommend policies to the Finance Committee that reflect evolving responsible investment procedures and practices from peer academic institutions or from policy groups that UBC has subscribed to or considers as relevant.

b. The Endowment Responsible Investment Committee shall periodically review IMANT's implementation and conformity with the responsible investment and ESG policies approved by UBC.

c. The Endowment Responsible Investment Committee shall also review responsible investment proposals received from the Finance Committee of the Board or from UBC's stakeholders.

8.1.2. The Terms of Reference for the Endowment Responsible Investment Committee outlines the mandate and composition of the Committee as well as the necessary thresholds required for the Committee to be petitioned by UBC's stakeholders.

9. REVIEW

9.1. UBC, through the UBC Board of Governors, commits to a review of its existing Responsible Investment Procedures at least every three years in the context of its fiduciary duty to manage the endowment in the best interests of UBC.

University of British Columbia

Endowment Responsible Investment Policy version 2.0

The first version of this policy was approved on June 4, 2013. This second version has been in development since July 2013. It will be submitted to the Board of Governors for approval in April 2014.

This policy strictly focuses on the University Endowment, as the University Pension Plans have different governance structures including their own Boards.

1. Background

On June 4, 2013, the UBC Board of Governors approved a responsible investment strategy to guide management of its endowments and working capital funds. The strategy was articulated around three commitments:

- 1.1. Direct investment in environmental and social projects.** Since 2010, the University has invested \$382 million in climate change/greenhouse gas reduction projects and in student housing projects. These direct investments exemplify the University's leadership on environmental and social issues and its unique approach focused on demonstration as part of its original "University as a Living Laboratory" concept. They are the largest investments of their kind in Canada.
- 1.2. Good governance.** The University's Investment Management Trust (IMANT) has joined the Canadian Coalition for Good Governance. IMANT has also committed to more formally emphasize the importance of environmental, social and governance (ESG) principles as one of the criteria in the selection of its fund managers.
- 1.3. Continuous improvement.** The University has assembled a special task group within the Board of Governors to review the rapidly evolving investment landscape and recommend further changes to the full Board.

The task group has worked on clarifying the University's fiduciary responsibilities, reviewing investment best practices in this rapidly evolving area and recommending to the Board a policy statement that addresses how UBC will apply the available investment practice options to foster responsible investment while meeting its fiduciary duty to donors and its fiscal obligation to the institution.

2. Context

UBC's responsible investment policy should be considered in the broad context of its Vision to "... create an exceptional learning environment that fosters global citizenship, advances a civil and sustainable society, and supports outstanding research to serve the people of British Columbia, Canada and the world." As an expression of the University community, this vision embraces social responsibility; it guides and tests the University's actions in all spheres of activity, including learning and practice.

- 2.1. Learning:** UBC is a teaching and research leader in many areas of social or environmental interest. As an example, UBC's Centre for Interactive Research in Sustainability, UBC's Clean Energy Research Centre and the success of UBC's renowned bio-diversity researchers are evidence of the University's contribution to sustainability. The University supports a large multidisciplinary research effort dedicated to developing sustainable mining practices and policies for sustainable resource development. UBC researchers are also involved in many aspects of social and economic sustainability, from developing good fisheries practice around the world to helping reduce the burden of HIV/AIDS locally and globally. This research involves thousands of UBC faculty and students, and has been supported by hundreds of millions of dollars in external funding in recent years.
- 2.2. Practice.** As the core of a large and growing community, the University has seized the opportunity to demonstrate leading activities in ESG behaviour on campus. Examples include UBC's large scale energy demand reduction and supply diversification strategies such as: the University's commitment to a 33% GHG reduction target, its \$150 million investment in Clean Tech demonstrations, and the massive expansion of on-campus student housing.

This responsible investment policy is therefore just one of many interconnected ways in which UBC can and does influence a global shift toward responsible corporate and industry practices with maximum impact and minimal cost.

3. Investment Policy development

- 3.1. Fiduciary responsibility** dictates that UBC invest and act solely in accordance with the requirements of its donors in accordance with the common law investment standards for trustees. Given its modest size, the UBC Endowment is primarily invested through pooled funds provided by external investment managers, rather than through direct ownership of individual securities. By investing through pooled funds, UBC is best able to diversify its investment risk and minimize external management fees and administrative costs. Investment diversification and costminimization are critically important strategies utilized by the Endowment to achieve investment returns that meet or exceed existing spending needs and ensure the preservation and real growth of the Endowment's capital value.
- 3.2. Best practices** suggest that incorporating ESG factors in the investment process is prudent and aligned with UBC's social commitment. Within the limits faced by an investor in externally managed pooled funds, UBC will incorporate ESG factors into its investment process through these options:
- 1. Manager selection.** The integration of ESG factors in the investment process will be an additional criterion in the selection and retention of investment managers. The University expects all public equity managers to have

incorporated formal ESG factors in the management of their portfolios within 3 years.

2. **Investor engagement.** Because UBC does not directly invest in companies, proxy voting is delegated to its investment managers. IMANT will encourage the fund managers to incorporate into their proxy voting guidelines policies that encourage issuers to increase transparency of their ESG policies, procedures and other activities. IMANT will expect the investment manager of an active mandate to consider shareholder proposals on ESG issues on a case-by-case basis. Given that meaningful summaries of proxy votes requires significant resources, the University will provide disclosure of proxy voting for Canadian equity investments.
 3. **Direct Engagement.** The endowment portfolio management structure does not make direct engagement with companies a practical option for IMANT. However, when there is significant exposure through the endowment to a particular company, industry or nation that is facing a material ESG issue, IMANT will express its concerns to the endowment investment managers and encourage them to engage directly with the issuer where appropriate;
 4. **Collective Engagement.** IMANT will, on a selective basis, engage issuers, regulators, and industry groups through third parties where we believe a collective approach to engagement will be more effective than direct engagement.
- 3.3. Divestment** or screening is an option through which investors may express their dissatisfaction with the environmental, social or governance practices of a company, industry or a nation with the aim of influencing these practices. This option may be more symbolic than effective, especially for relatively small investors such as UBC, and carries the risk of unintended consequences. This option will therefore only be considered when all five of the following criteria are met:
1. **Proven social, political, economic or environmental rationale.** Such a rationale must be supported by a body widely seen as competent and objective, such as the Canadian Coalition for Good Governance or a research or policy institute generally accepted as impartial and credible. Such an assessment does not preclude the University to take a different position on an issue.
 2. **Reasonable evidence that divestment is an effective way to achieve the desired outcome.** This would be most compelling if divestment changes the behaviour of an offending company or industry. Divestment from a sector should not facilitate investment opportunities for less responsible investors, nor should it drive investment to countries and regions with weak or nonexistent regulatory regimes or ESG standards. Finally, since divestment would significantly impair, if not preclude UBCs ability to engage, the choice to divest should be demonstrably superior to our engagement.

3. **Absence of alternative policies** that are as effective at a lower cost, or more effective at the same cost. Implementation of divestment programs may be expensive for an endowment of the size of UBC. Costs of divesting activities include administrative and management resources, investment management fees, and reduced diversification.
4. **Consistency with the University's legal obligations as trustee.** The UBC Board of Governors endorses the incorporation of ESG principles into its investment policy, subject to its primary fiduciary responsibility of acting in the best interest of the University and its stakeholders. When considering divestment, the University must consider the interest of its multiple stakeholders, which include students, faculty, staff, alumni, donors, the government and taxpayers.
5. **Consistency with its other University relationships.** Any divestment proposal should be mindful of all the University's activities, of its public nature and of its ultimate accountability to the people of British Columbia.

4. Advisory Committee

In order to assess and recommend areas of engagement and to examine requests for action from its stakeholders, the University will set up a Responsible Investing Policy Committee advisory to the Board of Governors.

An appendix to this policy outlines the mandate and composition of the Committee as well as the necessary thresholds required for the Committee to be petitioned by various University stakeholders.

5. Continuous improvement

The University, through the UBC Board of Governors, commits to a review of its existing Responsible Investment Policies at least every three years (and more often if justified by rapid industry changes) in the context of its fiduciary duty to manage the endowment in the best interests of the University.