



<b>SUBJECT</b>	<b>ENDOWMENT RESPONSIBLE INVESTMENT APPROACH</b>
<b>MEETING DATE</b>	<b>SEPTEMBER 18, 2019</b>
<b>APPROVED FOR SUBMISSION</b>	<p>Forwarded on the Recommendation of the President</p>  <p>Santa J. Ono, President and Vice-Chancellor</p>
	<b>FOR INFORMATION</b>
<b>Report Date</b>	August 21, 2019
<b>Presented By</b>	Peter Smailes, Vice-President Finance & Operations Yale Loh, Treasurer

## EXECUTIVE SUMMARY

UBC Administration has undertaken preliminary consultation on a proposed UBC Responsible Investment Principles document. In addition to principles, the document also contains environmental, social and governance (“ESG”) factors for priority and focused engagement as well as a statement on divestment. The UBC Statement of Investment Values (2012) and UBC IMANT’s Approach to Responsible Investing are attached as background information. **Feedback from the Endowment Responsible Investment Policy Committee is requested prior to further consultation.** A consultation plan is included and will be undertaken upon endorsement of the UBC Responsible Investment Principles.

### Attachments

1. Appendix A - UBC Responsible Investing Principles
2. Appendix B - UBC Statement of Investment Values (2012)
3. Appendix C - UBC IMANT’s Approach to Responsible Investing

## STRATEGIC CORE AREAS SUPPORTED

☐ People and Places      ☐ Research Excellence      ☐ Transformative Learning      ☒ Local / Global Engagement

<b>DESCRIPTION &amp; RATIONALE</b>	<p>At the January 2019 Endowment Responsible Investment Policy Committee meeting, the Committee requested that the Administration provide materials and a consultation plan in advance of actual consultation. It was intended that included in the consultation materials was a proposed Endowment Responsible Investment Policy detailing UBC’s approach to responsible investing, including how the Committee would review Responsible Investing proposals from the Finance Committee and other stakeholders, together with other items normally found in an investment policy such as committee terms of reference and other general rules for IMANT as fund manager. Following circulation to a small group of student representatives and Board of Governors members for feedback, it was recommended to split the responsible investing beliefs and principles into a separate document to allow for greater clarity and additional details on environmental, social and governance (“ESG”) priorities. This would also allow consultation to focus solely on the beliefs and principles.</p>
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In addition, through informal conversations, there were significant common ground on the investment beliefs and principles between the student representatives, the Board of Governors members that were consulted, and UBC Administration, and the gap was not as wide as initially thought. This common ground is reflected in the proposed investment beliefs and principles document. A draft UBC Responsible Investing Principles is attached as Appendix A. Two additional documents are attached for background information. The first is the University's investment beliefs, approved by the Board in 2012, attached as Appendix B. The second is UBC IMANT's Approach to Responsible Investing attached as Appendix C.

The purpose of the UBC Responsible Investing Principles document is to describe UBC's approach to responsible investing and our investment beliefs and principles so that the Committee can provide feedback before the Administration undertakes additional consultation. These investment beliefs and principles would apply equally to both the Main Endowment Pool and the Sustainable Futures Pool ("SFP"). Specifically, the following responsible investing principles<sup>1</sup> are outlined:

- In managing the Endowment, as UBC's primary responsibility is to ensure enduring long-term investment returns at a prudent level of risk, ESG matters are addressed when these factors present material risk to an investment and/or the portfolio.
- As significant ESG risks vary between asset classes, regions, sectors and companies, IMANT will adapt UBC's approach and strategy to what is appropriate for the investment.
- Knowledge and reason inform both UBC and IMANT's responsible investing decisions and activities.
- IMANT will encourage companies to identify practical and realistic solutions to ESG risks, and UBC recognizes that introducing good governance and operational practices takes time.
- UBC must own a company to be able to influence its governance and operational practices. As a long-term owner, UBC, through IMANT and external fund managers, will interact with companies about their governance structures, policies and operations.
- We believe that engaging is more effective in seeking to initiate change than divesting, and that aligning with like-minded investors and organizations is more effective than working in isolation.

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<sup>1</sup> The responsible investing principles were drafted in consideration of similar principles adopted by BC Investment Management (BCI), Ontario Teacher's Pension Plan, OMERS, and Alberta Investment Management Co (AIMCo) which in turn, were adopted based on the United Nations Principles for Responsible Investing (UNPRI).

The following ESG factors for priority and focused engagement have been provided as potential examples. It is within the mandate of the Endowment Responsible Investment Policy Committee to identify and update the priority ESG issues for engagement.

Environmental	Social	Governance
Energy intensity and emissions reduction	Income equality	Workplace/Board diversity
Land use, especially in relation to indigenous issues	Community impact	Anti-corruption
Renewable energy	Health and safety	Executive compensation
Climate change		Shareholder rights/voting
Resource use and management		
Biodiversity		

Lastly, the Responsible Investing Principles clearly states that UBC does not believe that divestment is an effective strategy for addressing long-term and persistent ESG risks and that divestment is only made when it is legally permissible and financially prudent in consideration of UBC's Responsible Investing Principles.

### Consultation Strategy

Following input from the Endowment Responsible Investment Policy Committee as to the form of the draft UBC Responsible Investing Principles, the following next steps would occur:

- Engage a responsible investing consultant to assist in refining and clarifying, if needed, the Principles and key ESG factors for engagement
- Together with External Relations, IMANT and the consultant, examine UBC's existing investment management practices to find commonality with the Principles and identify gaps
- Build the findings into a communication strategy for students (including C350), faculty, staff, donors, and other stakeholders
- Engage representatives from stakeholders to elicit feedback on the Responsible Investing Principles
- Report back to the Committee the results of the consultation and any resulting changes to the Principles
- Prepare a protocol for how proposals to consider priorities for engagement, as well as the potential establishment of new pools (and divestment) will be considered.

<b>CONSULTATION</b>	UBC Investment Management Trust
Relevant Units,	Office of the University Counsel
Internal & External	UBC Development and Alumni Engagement
Constituencies	UBC Student Representatives

## The University of British Columbia's Responsible Investment Principles Discussion Paper

### Background

The University of British Columbia ("UBC") has established two pools within the University's Endowment (the "Endowment"): the Main Endowment Pool (MEP) and the Sustainable Future Pool ("SFP"), both to support UBC's charitable activities in perpetuity. The primary goal of the Endowment is to provide financial support to the university's academic mission in perpetuity. UBC's MEP is the result of over ninety years of philanthropy and consists largely of endowed charitable purpose trusts from donors to support specific aspects of UBC's educational purposes in perpetuity. The MEP also contains some funds which were established with funds derived from other sources, including provincial fund matching programs, and proceeds from the prepaid leasing of residential lands.

The SFP was created in February 2016 as a separate pool of funds within the university's Endowment with the intent of incorporating non-financial objective of materially reducing carbon-dioxide emissions, alongside long-term investment considerations in the prudent management of the SFP funds. UBC views the SFP to be in the best interests of the university and consistent with the university's leadership in sustainability. The SFP is viewed as part of UBC's vision of a "living lab" to see if UBC can incorporate a higher level of sustainability into its investment processes in a prudent manner.

The purpose of this document is to describe UBC's evolving approach to responsible investing and our investment beliefs and principles. UBC's approach to responsible investing, including the responsible investing principles and beliefs, will be applied to both the MEP and the SFP and any other future pools that the University may establish over time.

### Mandate

UBC's Board of Governors is responsible for overseeing the Endowment and ensuring that investment decisions are made in accordance with its fiduciary duties. UBC's objective is to invest the Endowment in a manner that will maintain the purchasing power of the Endowment over time while achieving stability and predictability in year to year spending (referred to as "inter-generational equity") while implementing responsible investing in a manner that maximizes the return of the funds.

UBC has engaged The University of British Columbia Investment Management Trust ("IMANT") to administer and implement management of the Endowment. IMANT is responsible for managing all of the external third-party investment fund managers providing investment services and for following established investment policies which include the responsible investing mandate.

As a manager-of-managers, IMANT does not invest directly in companies or hold individual investments but instead relies on investment in pools or funds managed by external investment managers. Therefore UBC, through IMANT, relies on external fund managers to implement our responsible investing principles and beliefs as outlined in the investment policies.

The Board of Governors and IMANT are committed to responsible investing, and IMANT incorporates environmental, social and governance (ESG) factors (“ESG Factors”) in its investment processes to facilitate more informed investment decisions in a way that does not negatively impact the financial objectives of their investments. Consideration of ESG Factors is an important criterion in selecting investment managers for investments. While UBC believes that companies that effectively manage ESG matters will have less risk and perform better financially over the long term, we recognize that consideration of ESG factors may impact the performance of investment portfolios to varying degrees across companies, sectors, regions, asset classes and through time.

### **Responsible Investing Principles**

At UBC and IMANT, responsible investment is focused on enhancing and protecting long-term stakeholder value by considering the impact of ESG factors on investment risk and performance, alongside traditional financial and economic analysis. The consideration of ESG factors and related information may be relevant to the financial performance of companies, enables better investment decisions and supports long-term stakeholder value. Therefore, integrating ESG factors into UBC’s decision-making, along with evaluation of other risk factors, is both prudent and consistent with our fiduciary duties. In addition, as responsible investing continues to evolve, integrating ESG considerations into our investment approach is constantly under development and we need to continuously learn from our own practices and experience.

Nonetheless, UBC recognizes it can be more complex to analyze the potential impact of ESG factors compared to other risk factors. ESG factors are often intertwined and can be hard to quantify. In addition, the long-term impact of some ESG issues may not be evident in companies’ quarterly or annual financial reports and data on ESG issues may not be standard across industries or regions. This is particularly relevant as UBC relies on outside investment managers and IMANT to implement our responsible investing principles and investment beliefs.

The following principles guide both UBC and IMANT in implementing our responsible investing approach for the Endowment:

- In managing the Endowment, as UBC’s primary responsibility is to ensure enduring long-term investment returns at a prudent level of risk, ESG matters are addressed when these factors present material risk to an investment and/or the portfolio.
- As significant ESG risks vary between asset classes, regions, sectors and companies, IMANT will adapt our approach and strategy to what is appropriate for the investment.

- Knowledge and reason inform both UBC and IMANT's responsible investing decisions and activities.
- IMANT will encourage companies to identify practical and realistic solutions to ESG risks, and UBC recognizes that introducing good governance and operational practices takes time.
- UBC must own a company to be able to influence its governance and operational practices. As a long-term owner, UBC, through IMANT and external fund managers, will interact with companies about their governance structures, policies and operations.
- We believe that engaging is more effective in seeking to initiate change than divesting, and that aligning with like-minded investors and organizations is sometimes more effective than working in isolation.

In consideration of our responsible investing mandate, UBC has identified the following ESG factors for priority and focused engagement. It is the responsibility of the Endowment Responsible Investment Policy Committee to identify and update the priority ESG issues for engagement.

Some potential examples are:

Environmental	Social	Governance
Energy intensity and emissions reduction	Income equality	Workplace/Board diversity
Land use, especially in relation to indigenous issues	Community impact	Anti-corruption
Renewable energy	Health and safety	Executive compensation
Climate change		Shareholder rights/voting
Resource use and management		
Biodiversity		

## Divestment

UBC does not believe that divestment is an effective strategy for addressing long-term and persistent ESG risks. Ownership gives UBC the right to raise concerns and influence a company on matters relating to corporate governance, as well as its environmental and social practices. UBC recognizes that people will have different opinions and conflicting views on our responsible investing activities and principles, particularly as it relates to divestment, but UBC does not consider divestment in isolation of the Responsible Investing Principles described above to be consistent with its fiduciary responsibilities. Therefore, engagement is our preference.

Divestment:

- Eliminates our rights as a shareholder to engage with management and raise awareness of long-term risks and encourage change of practices.
- Does not encourage companies to amend their policies and practices.
- May compromise our investment strategy, increase risks and costs, and negatively affect our investment returns.

UBC will only consider divestment where it is legally permissible and financially prudent in consideration of UBC's Responsible Investing Principles.

 <b>a place of mind</b>	<b>Statement of Investment Values</b>
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This *Statement of Investment Values* identifies specific UBC values that influence the investment management process. These are to be read in conjunction with the *IMANT Mission Statement and Statement of Investment Beliefs* in designing and implementing investment strategies for UBC portfolios.

### **Fiduciary Responsibility**

UBC has a fiduciary responsibility to match its investments with its liabilities, and to adjust its liabilities, funding and investment policies as needed in a fiscally responsible manner. This principle applies to all of UBC's funds, including the Endowment Fund and Staff Pension Plan.

### **Risk Management**

UBC seeks to minimize the risks associated in managing the benefit, funding and investment decisions of its portfolios. This requires that risks be identified, quantified, managed and reported. Risks include asset liability mismatch and investment risks such as return volatility, concentration, currency, credit, liquidity, manager and benchmark risks.

### **Long-Term View**

UBC is committed to a long-term, strategic view of its assets and liabilities. At the same time, UBC recognizes that a 10-year outlook is a reasonable time frame by which to evaluate tradeoffs and formulate decisions on investment benefits and funding.

### **Transparency**

As a public institution, UBC is accountable to a broad range of constituencies. Communication with all constituents requires transparency in investment holdings and processes.

### **Flexibility**

The University's funding model, while historically relatively stable, may be exposed to external funding pressures outside of the University's control. With that in mind, the need for flexibility and liquidity is an important aspect of UBC's portfolio management.

### **Responsible Investing**

As a global leader in sustainability and community engagement, UBC is committed to responsible investing. It will however fulfill its commitments in a way that does not negatively impact the financial performance of its investment funds.



## IMANT's Approach to Responsible Investing

As the investment manager for The University of British Columbia related funds, UBC IMANT places a high importance on implementing the University's commitment to Responsible Investing. Responsible Investing at IMANT incorporates i) the fiduciary requirement to ensure that the financial requirements of all stakeholders are met, ii) sustainability through incorporation of best practices in Environmental, Social and Governance (ESG) considerations, and iii) active ownership and engagement.

IMANT believes that responsible investing requires active and engaged ownership of investments to enhance long-term sustainability and improve the risk profile of the investment portfolios that we oversee. This document describes our approach to responsible investing and the integration of ESG criteria within our investment process across all asset classes.

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### Responsible Investing

IMANT's engagement efforts are guided by the direction provided by our clients, UBC and the UBC Staff Pension Plan. We assist our clients in formulating their responsible investing priorities through regular updates on best practices and ESG initiatives undertaken by the broader investment community.

We implement responsible investing i) by evaluating information that goes beyond traditional accounting data and ii) by active ownership evidenced through engagement with investment managers, with our peers in the investment community and with regulators.

### ESG integration

IMANT believes that ESG considerations have the potential to impact investment risks and returns. As a manager-of-managers, IMANT strives to work alongside our external managers to analyze and understand threats and opportunities driven by environmental impacts, social considerations and governance structures. We actively seek to identify ESG threats and invest in opportunities driven by explicit and thoughtful considerations of environmental, social and governance matters.

Consequently, ESG criteria are among the key factors that inform investment decision making at IMANT. ESG integration is formalized in the UBC Responsible Investment Policy ([link](#)), IMANT's Investment Beliefs and in the Statements of Investment Policies and Procedures governing individual investment pools.

The ESG criteria against which we evaluate in our process include:

- Environmental concerns include (but are not limited to) air and water pollution, resource depletion, greenhouse gas emissions, deforestation and land use.
- Social considerations encompass labour standards, workplace health and safety, diversity and consumer protection.
- Governance practices cover shareholders rights, conflicts of interest, board structure, corruption and executive compensation.

## **Active Ownership / Engagement**

Active ownership is a cornerstone of implementing responsible investing in practice. As a manager-of-managers we actively engage with external investments managers to provide us with evidence of ESG integration in investment decision-making. We evaluate our external managers on the steps that they take with respect to influencing responsible corporate behavior through proxy voting and direct industry contact. Collectively, with other like-minded institutions we participate within organizations such as the Canadian Coalition for Good Governance (CCGG), Pension Investment Association of Canada (PIAC) etc. that promote responsible investing by influencing corporations, governments and regulators.

## **Transparency**

Successful implementation of Responsible Investing depends on transparent disclosure of ESG data. Through its engagement with peer groups, IMANT supports efforts to have corporations provide investors ESG related information to improve the quality of institutional investment decision-making. IMANT also requires ESG updates from our external investment managers to ensure that ESG matters are continually incorporated in their investment decision making and that the managers actively engage with portfolio companies when needed.

## **Investment Exclusions**

At IMANT, we believe that stakeholders are in a better position to affect change if they remain involved. Therefore, unless requested by our clients, we do not selectively exclude investments based simply on geography or industry sector.

Moreover, we support our clients in their decision-making process with respect to divestments by providing insights on industry best-practices as well as via estimates of the materiality of a divestment proposal on the overall risk/return profile of a portfolio.

## **Implementation**

Since the UBC Responsible Investing policy was formally adopted in 2013, IMANT ESG procedures have become more formal and more encompassing. IMANT reports its progress in implementing responsible investing in its Annual Reports. Key responsible investment initiatives undertaken by IMANT to-date are as follows:

- As per the UBC Responsible Investment Policy, inclusion of ESG considerations is explicitly formalized in IMANT's Statement of Investment Beliefs and in the policies and procedures of asset pools managed by IMANT.
- ESG considerations are key criteria in identifying and selecting external investment managers.
- ESG updates are included in manager reviews annually.
- Public equity managers are required to provide proxy voting records.
- IMANT monitors managers' participation in responsible investing organizations and initiatives.

- External public equity managers selected by IMANT are independently evaluated for their ESG incorporation by external, independent ESG experts. External evaluations confirm IMANT assessments of ESG incorporation by external managers.
- ESG reporting at IMANT has been expanded to include fixed income, private equity, real estate and infrastructure investments with initial results showing high levels of ESG incorporation and transparency by our managers in these asset classes.
- Establishment of a new dedicated endowment pool with a goal of materially reducing CO2 emissions, avoiding investments in fossil fuel companies and delivering investments returns required to support the Endowment's objectives. To date, this investment pool has delivered on its financial goals while reducing CO2 by over 80% compared to its benchmark

# ENDOWMENT RESPONSIBLE INVESTING APPROACH

September 12, 2019

**Peter Smailes, VP Finance and Operations**

**Yale Loh, Treasurer**



# Introduction



- Request from January 2019 ERIP for consultation plan and materials
- Following preliminary consultation, focused development on a proposed UBC Responsible Investing Principles document
- Separate document allows greater clarity and details on ESG priorities, and allow consultation to focus solely on beliefs and principles



# Investment Beliefs and Principles



- In managing the Endowment, as UBC's primary responsibility is to ensure enduring long-term investment returns at a prudent level of risk, ESG matters are addressed when these factors present material risk to an investment and/or the portfolio.
- As significant ESG risks vary between asset classes, regions, sectors and companies, IMANT will adapt UBC's approach and strategy to what is appropriate for the investment.
- Knowledge and reason inform both UBC and IMANT's responsible investing decisions and activities.
- IMANT will encourage companies to identify practical and realistic solutions to ESG risks, and UBC recognizes that introducing good governance and operational practices takes time.
- UBC must own a company to be able to influence its governance and operational practices. As a long-term owner, UBC, through IMANT and external fund managers, will interact with companies about their governance structures, policies and operations.
- We believe that engaging is more effective in seeking to initiate change than divesting, and that aligning with like-minded investors and organizations is more effective than working in isolation.

# ESG Priorities



- Within Committee mandate to identify and update priority ESG issues for engagement. Examples are:

Environmental	Social	Governance
Energy intensity and emissions reduction	Income equality	Workplace/Board diversity
Land use, especially in relation to indigenous issues	Community impact	Anti-corruption
Renewable energy	Health and safety	Executive compensation
Climate change		Shareholder rights/voting
Resource use and management		
Biodiversity		

# Divestment



- Eliminates our rights as a shareholder to engage with management and raise awareness of long-term risks and encourage change of practices.
- Does not encourage companies to amend their policies and practices.
- May compromise our investment strategy, increase risks and costs, and negatively affect our investment returns.

UBC will only consider divestment where it is legally permissible and financially prudent in consideration of UBC's Responsible Investing Principles



# Consultation Strategy



Following input as to the form of the Principles document:

- Engage a consultant to assist in refining and clarifying Principles
- Together with ER, IMANT and consultation, examine current practices to find commonality and gaps with Principles
- Build findings into communication strategy
- Engage representatives from stakeholders for feedback
- Report back results of consultation to Committee
- Prepare protocol to consider engagement priorities as well as establishment of new pools