

SUBJECT	RESPONSIBLE INVESTING APPROACH UPDATE
MEETING DATE	NOVEMBER 22, 2019

Forwarded on the Recommendation of the President

APPROVED FOR SUBMISSION



Santa J. Ono, President and Vice-Chancellor

FOR INFORMATION

Report Date	November 12, 2019
--------------------	-------------------

Presented By Peter Smalles, Vice-President Finance & Operations
Yale Loh, Treasurer

EXECUTIVE SUMMARY

The attached report, "Update to UBC Responsible Investing Approach" is intended to provide an overview of the University's approach to responsible investing, opportunities with respect to climate change risk, opportunities within the current approach, and recommended next steps.

Attachments

1. "Update to UBC Responsible Investing Approach"

STRATEGIC CORE AREAS SUPPORTED

People and Places
 Research Excellence
 Transformative Learning
 Local / Global Engagement

DESCRIPTION & RATIONALE Please see attached report.

BENEFITS
 Learning, Research, Financial, Sustainability & Reputational

UBC has been widely regarded as a global leader in sustainability, as supported by the recent Times Higher Education University Impact Rankings assessed against the United Nations Sustainable Development Goals. UBC ranked as the number one university for climate action and third for overall impact. Incorporating a greater focus on environmental, social and governance issues with the endowment and other investment pools while maintaining UBC's fiduciary responsibility towards the funds and beneficiaries further supports the leadership role while maintaining the financial benefits of the investment pools.

RISKS
 Financial, Operational & Reputational

Incorporating climate change risks into UBC investment beliefs and portfolio management could help hedge the portfolio investments against potential financial risk associated with climate transition. However, depending on the implementation of these hedges, there could be short-term financial risks in changing asset allocations and/or specific investments as a result. Given that the endowment and other investment pools fund University operations and initiatives, this could cause funds available for operations and initiatives to fluctuate.

COSTS Costs of implementing specific aspects and programs will be reported separately.
Capital & Lifecycle
Operating

FINANCIAL See Risks above.
Funding Sources,
Impact on Liquidity

SCHEDULE The following is the recommended implementation schedule
Implementation
Timeline

- Climate beliefs and objectives for Board Approval February 2020
- Develop 2 or 3 climate target objectives and consult with internal and external stakeholders February 2020 to August 2020
- Report results of consultation to Board in September 2020
- Finalize implementation plan for Board Approval in November 2020
- Initiate portfolio transition and changes

CONSULTATION Office of University Counsel
Relevant Units, IMANT
Internal & External
Constituencies Shareholder Association for Research & Education (SHARE)

UPDATE TO UBC RESPONSIBLE INVESTING APPROACH

November 6, 2019

PETER SMAILES, VICE-PRESIDENT FINANCE & OPERATIONS

YALE LOH, TREASURER



OVERVIEW

UBC Current State

- Current responsible investment initiatives
- Focus on climate change risk and strategy
- What is UBC doing as an asset owner
- What are other asset owners doing

Advancing Sustainable Investing

- Opportunities in current state
- Key steps for establishing a climate strategy

Recommended Next Steps

- Action & consultation plan



BACKGROUND

- ERIP Committee requested consultation plan and materials at January 2019 meeting
 - 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
 - Proposed UBC Responsible Investing Beliefs and Principles presented at September 2019 meeting
 - ERIP Committee requested that comprehensive plan be brought for approval
- Broad review of UBC responsible investing strategy included:
 - Review of UBC current state and what others are doing
 - Review of opportunities with particular focus on climate strategy
 - Engagement of SHARE for guidance in developing climate strategy and framework



BUILDING ON BROADER UBC SUSTAINABILITY INITIATIVES

UN Sustainability Goals Framework

UBC ranked #1 university in the world for taking urgent action to combat climate change and its impacts (#13) and #1 in Canada for making communities inclusive, safe, resilient and sustainable (#11)¹.

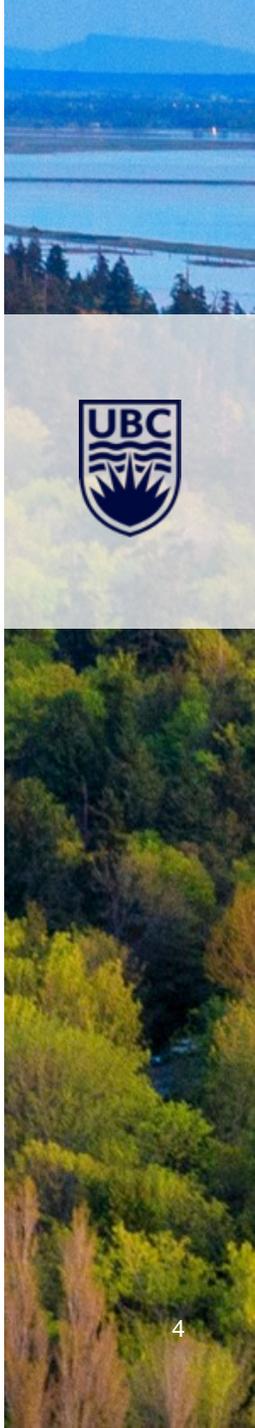


UBC Vancouver		UBC Okanagan
38% reduction in absolute GHG emissions since 2007	156 additional below-market rental units under construction	41% reduction in absolute GHG emissions since 2013
49% reduction in absolute water use since 2000	27 wellbeing projects supported through strategic initiatives fund	14% reduction in absolute water use since 2013
687 sustainability-related courses	66% of trips by sustainable modes of transportation	14% increase in waste diversion rate since 2010
374 faculty researching sustainability-related topics	26 student-led groups participated in Student Sustainability Council	62% of trips by sustainable modes of transportation

Opportunity to Align

UBC Annual Sustainability Report 2018-2019

¹2019 The Times Higher Education University Impact Ratings



INITIAL FOCUS ON CLIMATE CHANGE RISK

- High potential climate change impact on investment portfolios
- Climate change & divestment dominating discussion
- Fiduciary duty and need to consider best interest of beneficiaries
 - UBC investment funds have different beneficiaries (e.g. endowment vs. pension)
 - Must be in best financial interests but can incorporate ESG
 - Other universities and investment funds have divested given investment risks
- Can utilize climate change framework for other ESG risks



"Climate-related risk is a **non-diversifiable risk that affects nearly all industries.**" Taskforce on Climate-related Financial Disclosures, *Implementing the Recommendations of the Taskforce on Climate-related Financial Disclosures*, June 2017.



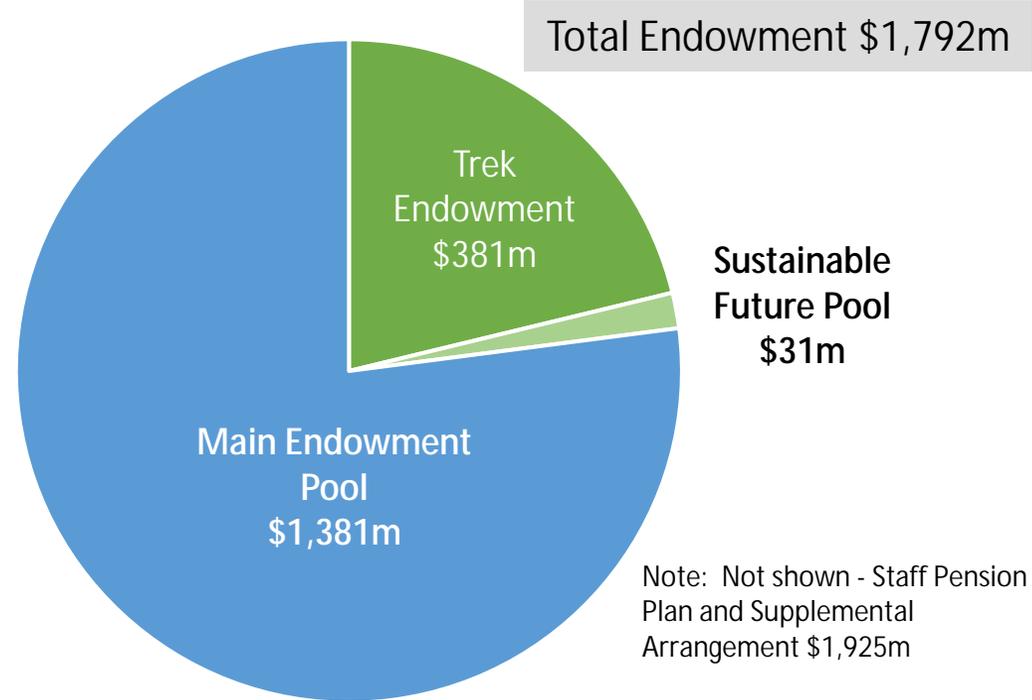
"Climate change continues to pose risks to both the financial system and the economy. These include physical risks from disruptive weather events and transition risks from adapting to a lower-carbon global economy." Bank of Canada 2019 Financial System Review



RESPONSIBLE INVESTING CURRENT STATE

UBC Responsible Investment Policy - incorporate ESG principles through:

1. Manager selection
2. Requiring ESG transparency and implementation
3. Investment manager engagement
4. Collective engagement



Responsible Investing Highlights

- Sustainable Future Pool is fossil fuel free and targets low carbon – 80% less than the benchmark for FY2019
- 100% of public asset managers are signatories to UN Principles for Responsible Investment
- 74% of private asset managers incorporate ESG in their investment decisions
- Nearly universal disclosure of CO₂ emissions from public equity managers
- Invest in renewable energy and social infrastructure



UBC AS ASSET OWNER

Opportunity	Current Status
Divestment	Pure divestment of fossil fuel investments identified as contrary to responsibility of fiduciary duty.
Low carbon portfolios	Sustainable Future Pool excludes fossil fuel and targets low carbon footprint ¹
Protecting portfolio from climate risk	Currently not considered
Identifying financial opportunities to benefit from climate transition	Currently not considered
Carbon intensity reduction targets	SFP targets low carbon footprint ¹
Engagement & proxy voting	Managed by external fund managers
Public policy & regulatory advocacy	Canadian Coalition for Good Governance

¹ Carbon objective is a materially lower carbon footprint compared to a passive cap-weighted benchmark



WHAT ARE OTHER UNIVERSITIES DOING

University ¹	Fossil Fuel Divestment ²	Element of ESG/SRI in Policies	Specific CO ₂ Reduction Target	Signatory with Climate Action Initiatives
University of British Columbia	X ³	✓	X	X
University of Toronto	X	✓	X - tracking	✓ - UNPRI, MCP, CA, CDP
University of Ottawa	X	✓	✓ - 30% by 2030	✓ - UNPRI, MCP
Other Canada U15	X	✓ - Majority	X - 3 others tracking	Mixed – 4 with UNPRI
University of California	✓ ⁴	✓	X	✓ - UNPRI
Simon Fraser University	X ⁵	✓	✓ - 40% by 2030	✓ - UNPRI
Concordia University	✓ ⁶	✓	X	✓ - UNPRI

Checkmarks are intended to show some degree of sustainability action. It is not intended to demonstrate completion or that more can't be done.

Notes:

1. See Appendix for expanded listing of U15 universities and a sample of global universities
2. Stanford, Oxbridge and Cambridge have divested of coal and tar sands.
3. UBC formed Sustainable Future Pool in 2017 - \$31m market value (total commitment of \$50m)
4. University of California System announced plans to divest US\$150m fossil fuels as investment decision in September 2019. Total endowment size US\$13.4b
5. Simon Fraser formed socially responsible fund in 2016 - \$12m investment
6. Concordia University announced plans to divest \$14m in coal, oil and gas investments by 2025 in November 2019. Total endowment size \$243m

Initiatives: UNPRI - United Nations Principles of Responsible Investing, MCP – Montreal Carbon Pledge, CA – Carbon Action 100+, CDP – Carbon Disclosure Project
GICCC – Global Investor Coalition on Climate Change



OPPORTUNITIES WITH CURRENT CLIMATE CHANGE STRATEGY

Opportunities

Portfolio Structure & Risk

- Climate change beliefs not articulated
- **No clear climate change objective or targets (aligned with broader university sustainability goals)**
- Portfolio composition & monitoring

Carbon Intensity Reduction

- Unclear climate risk exposure

Engagement & Proxy Voting

- Manager oversight including enhanced ESG voting guidelines
- Shareholder engagement

Public Policy & Advocacy

- Adding UBC's voice to advocacy

Considerations

Fiduciary Duties & Legal Constraints

- Financial best interests of beneficiaries versus best interests of the university
- Cannot undertake actions that harm the main endowment pool

IMANT Resources

- Currently structured as manager of managers – no direct security holdings
- Increasing manager and portfolio monitoring, reporting and shareholder engagement may require additional resources

Internal & External Stakeholders

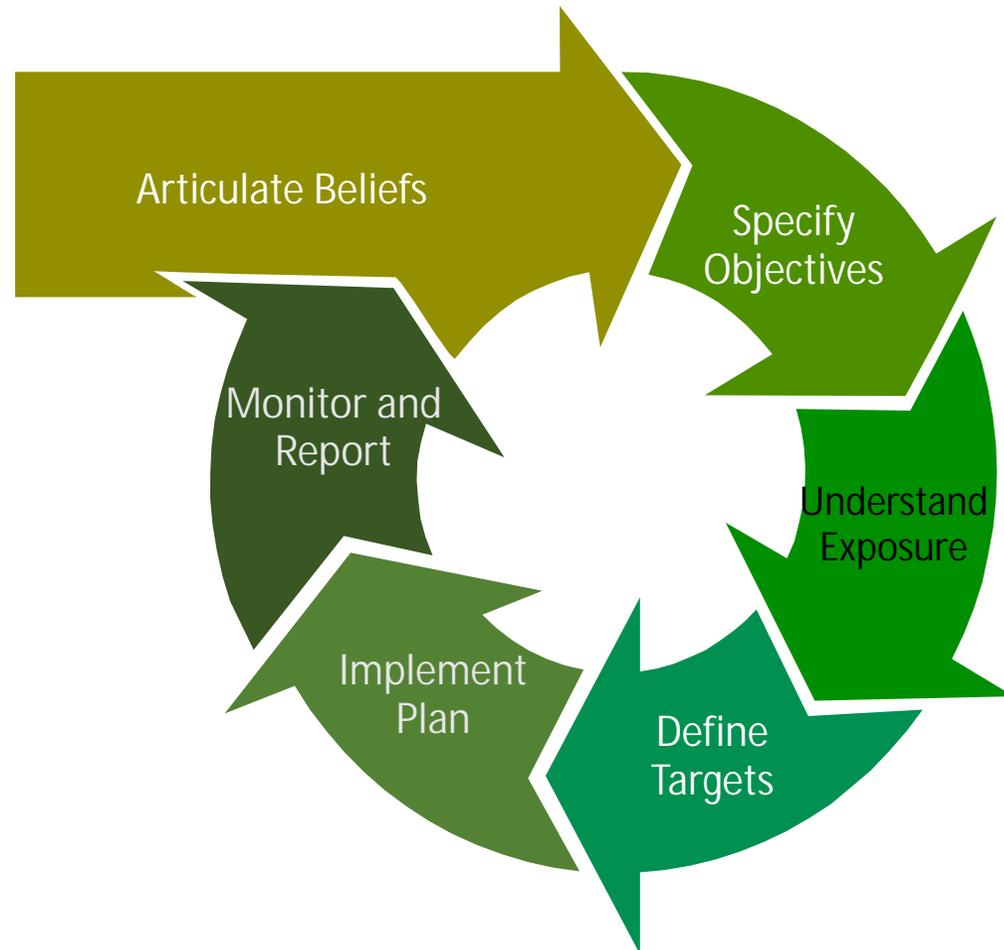
Need to Balance Opportunities and Considerations



ADVANCING RESPONSIBLE INVESTING – FOCUS ON CLIMATE STRATEGY



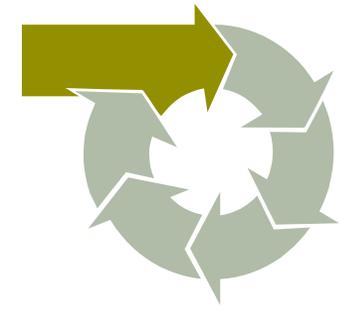
ESTABLISHING A CLIMATE STRATEGY - KEY STEPS



1. **Articulate Beliefs** – What do we believe the impacts of climate change are?
2. **Specify Objectives** – What do we want to achieve?
3. **Understand Exposure** – What is our current exposure to climate risks and where can we reduce our portfolio's carbon emissions
4. **Define Targets** – What are we striving towards and how we will measure our progress?
5. **Implement Plan** – What tools are best suited for helping us reach our objectives?
6. **Monitor & Report** – Ensure continual learning, adaptation and improvement



ARTICULATE CLIMATE CHANGE BELIEFS



Questions to Ask

Does UBC believe ...

Certain fossil fuel assets will become stranded as a result of government action to curb greenhouse gas emissions and other factors?

The value of non-fossil fuel producing investments such as utilities, construction, or agriculture with high GHG emissions will be at risk as a result of climate change regulation (e.g. carbon pricing or incentives for renewable energy)?

The physical impacts of climate change such as extreme weather events, sea-level rise, high temperatures, drought will affect the value of our investments?

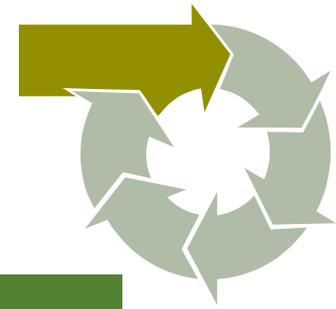
There may be short-term opportunities in holding fossil fuel investments despite long-term trajectories?

Climate change will negatively affect the economy as a whole?

Providing solutions to climate change offers attractive investment opportunities which might hedge downside risk in other parts of our portfolio?



ARTICULATE CLIMATE CHANGE BELIEFS



Possible Climate Change Examples for Consideration

Climate Change & Investment Opportunities

UBC believes that investment managers and companies with strong climate-related strategies, metrics and incentives will be best positioned to take advantage of opportunities in the the transition to a low carbon economy.

Climate Change & Investment Risks

UBC believes that climate change poses significant risks to the University's investment portfolios across asset classes.

Climate Science

UBC believes that climate change is an existential threat to global economies, markets and earth systems.

UBC's Role in Addressing Climate Change

UBC has a responsibility to contribute to building a low carbon economy.



SPECIFY CLIMATE CHANGE OBJECTIVES



Questions to Ask

Should our focus be on actions that protect the climate, that protect our portfolio, or both?

Can we protect our portfolio without protecting the climate?

Does the university have a special role to play helping investors respond to climate change?

Does long-term thinking inform our investment strategy and processes?

How will climate change affect our institution and/or beneficiaries?



Examples of Objectives

Contribute to the transition toward a low carbon economy

Ensure our investment processes and those of our service providers manage portfolio risks from climate change.

Build on the university's expertise and leadership by investing in climate solutions.

Capitalize on investment opportunities from the long-term transition to a lower carbon economy and protect our portfolio from undue physical and transition risk

Overarching Objectives – Protect the climate and protect UBC portfolio



UNDERSTAND CLIMATE CHANGE RISK EXPOSURE



Questions to Ask

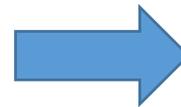
What are the areas of high and low carbon risk in our portfolio?

What are the financial implications of our current exposure?

Which asset classes have a higher exposure to climate change-related risks?

Are some of our managers more exposed to carbon risk than others? If so, why?

What action should we take, if any?



Measurement Tools

Scenario planning tools can test portfolio resilience under various conditions

Carbon footprinting can help you understand the GHGs associated with a portfolio

Carbon exposure metrics allow you to understand the portfolio's exposure to carbon-intensive companies

TCFD recommends weighted average carbon intensity (CO₂e/\$m revenue)



POTENTIAL CLIMATE CHANGE TARGETS



→ Level of Ambition →

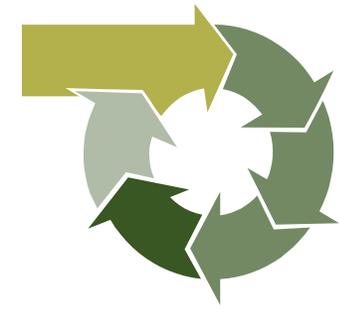
- Net zero emissions by 2050 - align with a 2-degree or lower (Paris Agreement)
- Reduce carbon intensity of portfolio
- Divest some or all of the portfolio
- Invest in climate solutions funds or low carbon investments
- Factor in climate change into investment decisions
- Engage companies across our portfolio to encourage energy efficiency, emissions reduction targets, transparency of lobbying and business alignment with the low carbon transition (Climate Action 100+)
- Measure and report carbon intensity



How far up the tree should UBC aim?



IDENTIFY OPTIONS AND IMPLEMENT PLAN



Portfolio Composition

- Climate solutions fund
- Green bonds
- Low carbon indexes
- Fossil fuel free funds

Stewardship

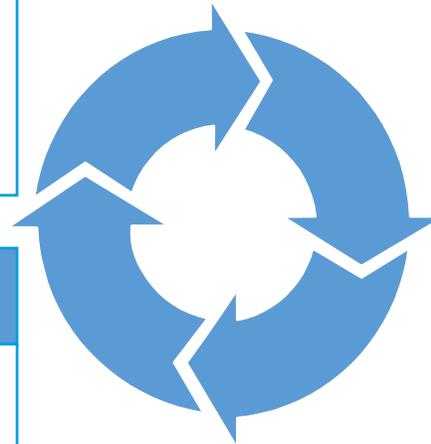
- UNPRI, Climate Action 100+
- Proxy voting alignment
- Public policy advocacy

Manager Oversight

- Re-audit investment managers
- Identify the correct benchmarks for assessing management
- Incorporate climate targets into compensation structures of external managers

Governance

- Ensure decision makers have the knowledge and support required to address climate change as an investment issue
- Incorporate climate targets into compensation structures of internal stakeholders



MONITOR AND REPORT



Monitoring

- Conduct ongoing monitoring of climate change strategy implementation including monitoring of IMANT, asset managers and other external service providers.
- Identify milestones and key performance indicators for the strategy
- Review governance capacity and resources to oversee the strategy
- Review overall strategy on a regular basis

Reporting & Communication

- Report to internal and external stakeholders about beliefs, objectives and targets as well as the overall climate change strategy.
- Communicate about allocations to climate solutions and green bonds, any divestment decisions and progress towards divestment targets.
- Communicate about efforts and outcomes related to engagement with companies

Transparency
is Key

Portfolio Composition

- Climate solutions fund
- Green bonds
- Low carbon indexes
- Fossil fuel free funds

Manager Oversight

- Re-audit investment managers
- Identify the correct benchmarks for assessing management
- Incorporate climate targets into compensation structures of external managers

Stewardship

- UNPRI, Climate Action 100+
- Proxy voting alignment
- Public policy advocacy

Governance

- Ensure decision makers have the knowledge and support required to address climate change as an investment issue
- Incorporate climate targets into compensation structures of internal stakeholders



POSSIBLE NEXT STEPS - TWO POSSIBLE PATHS

Option 1

1. Define beliefs and climate objectives for Board Approval in February 2020
2. Develop 2 or 3 climate target options and implementation plans
3. Consultation with internal and external stakeholders on climate targets and ESG
4. (Develop possible broader ESG objectives)
5. Report results of consultation to Board in September 2020
6. Finalize implementation plan for Board approval in November 2020
7. Initiate portfolio transition

Option 2

1. Define beliefs and climate objectives for review by Board in February 2020
2. Consultation with internal and external stakeholders
3. Develop 2 or 3 climate (& ESG) target options and implementation plans
4. Report results of consultation for Board Approval in September 2020
5. Finalize implementation plan for Board approval in November 2020
6. Initiate portfolio transition

Monitor & Report - Enhancing Carbon Reporting, Manager Oversight and Stewardship

- Enhance measurement and disclosure of portfolio carbon intensity – Target summer 2020
- Enhance proxy voting tracking and reporting – Target summer 2020
- Review Climate Action 100+, UNPRI and other initiatives – for Board Approval June 2020



RECOMMENDATION – OPTION 1

Option 1

1. Define beliefs and climate objectives for Board Approval in February 2020
2. Develop 2 or 3 climate target options and implementation plans
3. Consultation with internal and external stakeholders on climate targets and ESG
4. Develop possible broader ESG objectives
5. Report results of consultation to Board in September 2020
6. Finalize implementation plan for Board approval in November 2020
7. Initiate portfolio transition

Monitoring & Reporting

- Enhance measurement and disclosure of portfolio carbon intensity – Target summer 2020
- Enhance proxy voting tracking and reporting – Target summer 2020
- Review Climate Action 100+, UNPRI and other initiatives – for Board Approval June 2020

**Implement Option 1 together
with enhancements to
Monitoring & Reporting in
parallel**





THE UNIVERSITY OF BRITISH COLUMBIA

THE UNIVERSITY OF BRITISH

APPENDIX



RESPONSIBLE INVESTMENT FRAMEWORK COMPARISONS

Canadian U15	Fossil Fuel Divestment	Element of ESG/SRI in Policies	Specific CO ₂ Reduction Target	Signatory with Climate Action Initiatives	Endowment
University of Alberta	X	✓	X	X	\$1.43b
University of Calgary	X	X	X	X	\$991m
Dalhousie University	X	✓	X	✓ - UNPRI	\$646m
Universite Laval	✓ - commit	X	X - tracking	X	\$377m
University of Manitoba	X	X	X	X	\$507m
McGill University	X	X	X - tracking	X	\$1.6b
McMaster University	X	✓	X - tracking	X	\$727m
University de Montreal	X	✓	X	✓ - UNPRI, GICCC	\$343m
University of Ottawa	X	✓	✓ - 30% by 2030	✓ - UNPRI, MCP	\$294m
Queens University	X	✓	X	X	\$1.1b
University of Saskatchewan	X	X	X	X	\$401m
University of Toronto	X	✓	X - tracking	✓ - UNPRI, MCP, CA, CDP	\$2.6b
University of Waterloo	X	✓	X	X	\$390m
University of Western Ontario	X	✓	X	X	\$804m

Initiatives: UNPRI - United Nations Principles of Responsible Investing, MCP – Montreal Carbon Pledge, CA – Carbon Action 100+, CDP – Carbon Disclosure Project
GICCC – Global Investor Coalition on Climate Change



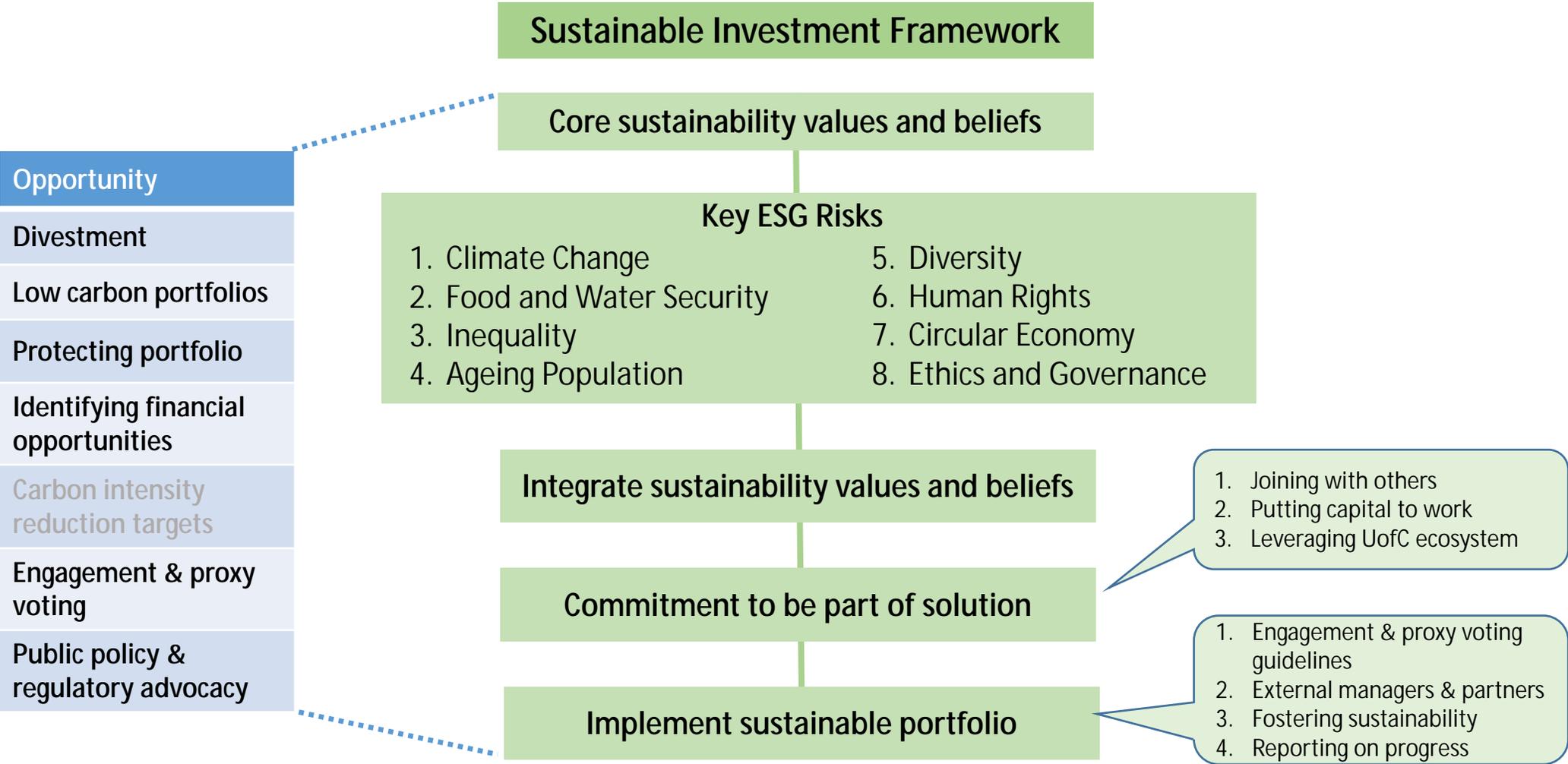
RESPONSIBLE INVESTMENT FRAMEWORK COMPARISONS

Other Global Universities	Fossil Fuel Divestment	Element of ESG/SRI in Policies	Specific CO ₂ Reduction Target	Signatory with Climate Action Initiatives	Endowment (most recent)
Harvard University	X	✓	X	✓ - UNPRI, CA, CDP	US\$40.9b
Stanford University	Coal & Tar Sands	✓	X		US\$27.7b
Yale University	X	✓	X		US\$30.3b
University of California	✓	✓	X	✓ - UNPRI	US\$13.4b
Oxford University	Coal & Tar Sands	✓	X	✓ - GICCC	£3.4b
Cambridge University	Coal & Tar Sands	✓	X		£3.4b
Simon Fraser University	X	✓	✓ - 40% by 2030	✓ - UNPRI	\$360.1m
Concordia University	✓	✓	X	✓ - UNPRI	\$243m

Initiatives: UNPRI - United Nations Principles of Responsible Investing, MCP – Montreal Carbon Pledge, CA – Carbon Action 100+, CDP – Carbon Disclosure Project
GICCC – Global Investor Coalition on Climate Change



UNIVERSITY OF CALIFORNIA APPROACH



Significant Progress on Asset Owner Opportunities



OPPORTUNITIES WITH CURRENT CLIMATE CHANGE STRATEGY

