



SUBJECT	Responsible Investing Update
SUBMITTED TO	Sustainability and Climate Action Committee
MEETING DATE	June 2, 2020
SESSION CLASSIFICATION	Recommended session criteria from Board Meetings Policy: OPEN
REQUEST	For input only - No action requested

LEAD EXECUTIVE	Peter Smailes, Vice-President Finance and Operations
SUPPORTED BY	Dawn Jia, CEO of UBC IMANT Yale Loh, Treasurer

PRIOR SUBMISSIONS

The subject matter of this submission has been considered previously by the Board of Governors or Committees on the following occasions:

1. [April 16, 2020](#) (OPEN SESSION Board of Governors)
Action/Follow up: Divestment Plus implementation plan including transition plan for divesting from fossil fuel intensive investments, nuances of measuring investment portfolio carbon emissions and overview of the United Nations Principles of Responsible Investing (“PRI”) network.
2. [February 14, 2020](#) (OPEN SESSION Board of Governors)
Action/Follow up: Report progress of financial justification to support divestment together with progress on implementing a comprehensive responsible investing framework that aligns with UBC’s sustainability priorities, incorporating climate changes beliefs into UBC’s investment policies, establishing baseline portfolio GHG emissions levels on the way to medium and long-term carbon reduction targets, becoming signatories to advocacy groups such as PRI and Climate Action 100+ at the April 2020 Board Meeting.
3. February 6, 2020 (CLOSED SESSION Finance Committee)
Action/Follow up: Provide financial justification to support divestment
4. [December 5, 2019](#) (OPEN SESSION Board of Governors)
Action/Follow up: Undertake and complete by March 31, 2020 financial analysis for both Main Endowment Pool and Sustainable Future Pool to support transfer of the Trek Endowment assets to the Sustainable Future Pool. Confirm by February 1, 2020 the legal implications of such a transfer. Undertake and report the necessary legal and financial analysis to explore full divestment from fossil fuels in the Main Endowment Pool and report analysis in an expedient manner.
5. [November 22, 2019](#) (OPEN SESSION Endowment Responsible Investing Policy Committee)
Action/Follow up: Further refine UBC’s responsible investing framework and bring forward recommendations on responsible investing climate change beliefs, targets, and implementation plan.

EXECUTIVE SUMMARY

The attached PowerPoint document includes an update on the status of UBC IMANT's Responsible Investing Plan / Divestment Plus approach. Specifically, this report provides:

- A progress update on Responsible Investing / Divestment Plus initiatives since November 2019
- An overview of the draft UBC ESG Responsible Investing / Divestment Plus Objectives and Actions
- A recommendation to join PRI Membership as signatories
- An introduction to Climate Measurement Methodologies
- An overview of Responsible Investing Work plan Status and Next Steps

Overview of Responsible Investing / Divestment Plus Objectives and Actions

UBC IMANT is utilizing a strong ESG framework guided by Responsible Investing Objectives to execute on its Responsible Investing / Divestment Plus approach. The framework leverages UBC's Sustainability Vision & Aspirations, as highlighted in the Sustainability strategy and upheld by the Sustainability Committee mandate, and includes actionable objectives for IMANT to execute. The Responsible Investing Actions are derived from direction provided by the United Nation's supported Principles for Responsible Investing (PRI) as well as initiatives and activities UBC IMANT has had in place and believes are important going forward. The Objectives are:

- *Establish key performance indicators and targets that align with UBC sustainability goals*
- *Incorporate responsible investing objectives into active ownership policies and practices*
- *Contribute leadership in the responsible investing community*
- *Enforce ESG disclosure and active tracking by asset managers*
- *Report on key performance indicators and progress in achieving targets*

UBC IMANT is committed to short term and long term actions aligned to each of these objectives and will continuously assess managers against its responsible investing policies and targets and divest of managers that do not meet expectations.

The attached PowerPoint contains short-term and long-term actions for each objective noted above.

Questions for Input:

- 1: Do the Responsible Investing /Divestment Plus Objectives cover the breadth of what the Sustainability Committee believes are important for UBC IMANT to be a leader in this field?
- 2: Does the Sustainability Committee believe any actions are missing that UBC IMANT should consider?
- 3: Does the Sustainability Committee have any comments on if any of the long term actions should shift to the short-term (bolded actions) or the reverse?

Signatories:

UBC IMANT researched various initiatives and international bodies that specialize in ESG/Sustainable/Responsible Investing. UBC IMANT, with approval from the UBC IMANT board, has decided to be a signatory to the United Nation's supported Principles for Responsible Investing ("PRI") on behalf of both the University and the UBC Staff Pension Plan. The PRI was developed in 2005 by a group of the world's largest institutional investors and supported by the United Nations. UNPRI's goals are to understand the investment implications of environmental, social and governance ("ESG") issues and to support signatories in integrating those issues into investment and ownership decisions. There are currently more than 2,000 signatories to PRI from over 60 countries representing more than US\$80 trillion of assets. The benefits of being a signatory include support and tools to engage with

fund managers on ESG issues, ongoing monitoring and assistance in how investment managers are incorporating ESG into their investing practices, network of like-minded investors, and on-going training.

Being a signatory to PRI will demonstrate UBC's commitment to responsible investing, require ongoing disclosure of responsible investing progress, and encourage UBC to advocate ESG investing among asset owners and other universities. This is consistent with the commitment to maintain UBC's leadership role in combating climate change and addressing ESG issues.

However, it is worth noting that the reporting requirements from PRI is quite intensive and will take up significant effort and bandwidth in the next 12-24 months. Deloitte's research indicated that in earlier years of Responsible Investing institutions tended to join multiple organizations, but in recent years PRI has established itself as the clear leader in the Responsible Investing space.

Question for Input: Does the Sustainability Committee have any desire for UBC IMANT to join another organization?

Climate Measurement Methodologies:

Measuring a portfolio's carbon footprint enables comparison to global benchmarks, allowing investors to identify priority areas and actions for reductions, and track progress in making these reductions. A portfolio's carbon footprint is the sum of an amount of each portfolio company's emissions, proportional to the size of the investment in the company. UBC IMANT continues to work towards enhancing our ability to measure and disclose portfolio carbon intensity as it is a core step in understanding our exposure to climate change risk and for establishing a baseline from which to take action. However, there is currently no formal published methodology to guide the calculation of all facets of an investor's Portfolio Carbon Footprint (PCF). The scope of measurement and measures to consider are captured in Appendix A and supporting PPT document.

Question for Input: Does the Sustainability Committee have any feedback to UBC IMANT on specific measures or things it should consider in valuing the Portfolio Carbon Footprint?

Appendix A:

Carbon Footprint	Normalized Carbon Footprint	Carbon Intensity	Weighted Average Carbon Intensity
<p>Measures the absolute GHG emissions associated with a portfolio, expressed in tons CO₂e</p>	<p>Measures the tonnage of CO₂ emissions for which the investors is responsible divided by the size of the portfolio in millions</p>	<p>Measures volume of carbon emissions per million dollars of revenue (carbon efficiency of a portfolio), expressed in tons CO₂e / \$M revenue</p>	<p>Measures Portfolio's exposure to carbon-intensive companies, expressed in tons CO₂e11 / \$M revenue</p>
<ul style="list-style-type: none"> ✓ Easy comparison to other portfolio's and benchmarks ✓ Most direct representation of investments' contribution to overall GHG emissions ✓ Having an absolute number is important if we wish to consider offsetting measures ✗ Size of a portfolio's carbon footprint is driven by the size of the portfolio itself; doesn't take into account differences in the size of companies (e.g. does not consider the carbon efficiency of companies) ✗ "Ownership" of emissions only applies to equity investments, making this approach unsuitable for fixed income investments 	<ul style="list-style-type: none"> ✓ Allows for comparison to portfolios of all sizes ✓ Enables further decomposition and analysis of the drivers of the investor's carbon footprint (e.g. our investments in the utilities sector have a higher level of emissions per million invested than those in the technology sector) ✗ "Ownership" of emissions only applies to equity investments, making this approach unsuitable for fixed income investments ✗ Sensitive to the company's capital structure 	<ul style="list-style-type: none"> ✓ Allows for comparison of the portfolio to peers & benchmarks ✓ Directly ties emissions efficiency to company operating performance, rather than company valuation ✓ Enables further decomposition & analysis of the drivers of the investor's carbon footprint, including within sectors (e.g. it might be more appropriate to measure an airline on CO₂ per kilometers flown, rather than dollars in sales). ✗ Relatively complex calculation; less intuitive to stakeholders ✗ Changes in underlying companies' market capitalization can be misinterpreted for fixed income investments 	<ul style="list-style-type: none"> ✓ Applicable to all asset classes including fixed income ✓ Simple calculation, enabling easy attribution of performance drivers ✓ Metric allows for portfolio decomposition and attribution analysis. ✗ Metric is sensitive to outliers (i.e. companies with unusually high emissions) ✗ Does not consider responsibility of the investor in proportion to their stake in the company; all emissions are attributable to the investor



RESPONSIBLE INVESTING / DIVESTMENT PLUS DISCUSSION FOR INPUT

JUNE 2020

UBC SUSTAINABILITY COMMITTEE

Agenda

Progress Update

Scope of Responsible Investing / Divestment Plus

Signatories

Climate Measurement Methodologies

Next Steps



- Update on ESG Responsible Investing / Divestment Plus progress

- Responsible Investing Objectives / Divestment Plus and Actions

- Update on Signatories

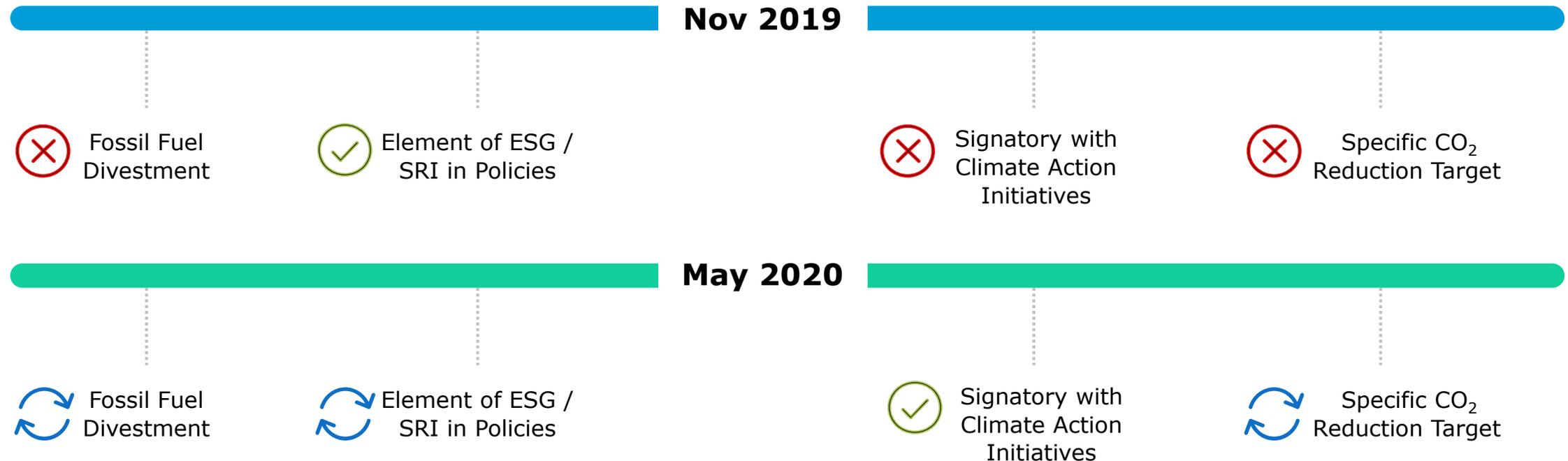
- Discuss the different Portfolio Carbon Footprint measurement methodologies and considerations for UBC Endowment portfolio

- Discuss the high level work plan and key discussion items for September board meeting

Progress on Responsible Investing / Divestment Plus

Even with the unprecedented market volatility and resource constraints caused by the outbreak of COVID-19, UBC Administration and UBC IMANT have worked hard to move forward with the Responsible Investing / Divestment Plus agenda

We would appreciate input and guidance from the Sustainable Committee on a number of initiatives we are working on:





**SCOPE OF RESPONSIBLE INVESTING /
DIVESTMENT PLUS**

UBC's Strategic Plan & Sustainability

UBC's 20 year Sustainability Strategy provides a long term framework for dealing with social and environmental challenges and provides direction and guidance for UBC IMANT's responsible investing policies, principles and practices

Sustainability Committee's Mandate:

Advise the Board on sustainability, climate action and responsible investment matters at UBC including review and recommend evolving responsible investment principles and practices



Action Plans & Targets

Action Plans & Targets that advance UBC's sustainability ambitions and address climate change impacts for UBC



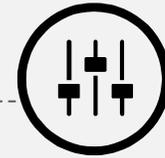
Oversight & Strategic Advise

Oversight and strategic advice to the UBC Executive regarding the implementation of the Climate Action Plans and other supporting sustainability initiatives undertaken by the UBC Executive



Policy Recommendation

Review and recommend policies to the Board that reflect evolving responsible investment principles and practices



Review and Approve

Periodically review UBC IMANT's implementation and conformity with the responsible investment policies approved by the Board.



Leader in Sustainability

Responsible Investing will be aligned with UBC's overall leadership in sustainability



Responsible Investing Objectives

Responsible investing objectives will be broad across key facets of ESG



Responsible Investing Actions and Goals

UBC IMANT will have clear actions and goals aligned with the Responsible Investing Objectives

UBC IMANT Responsible Investing / Divestment Plus Objectives

UBC IMANT is expanding on its ESG framework guided by Responsible Investing Objectives to execute on its Divestment Plus approach

ESG Framework and Responsible Investing / Divestment Plus Objectives



Establish key performance indicators and targets that align with UBC sustainability goals



Incorporate responsible investing objectives into active ownership policies and practices



Contribute leadership in the responsible investing community



Enforce ESG disclosure and active tracking by asset managers



Report on key performance indicators and progress in achieving targets



Continuous assessment of Managers against Responsible Investing Policies & Targets



Divest of managers that do not meet expectations



Do the Responsible Investing / Divestment Plus Objectives cover the breadth of what the Sustainability Committee believes are important for UBC IMANT to be a leader in this field?

UBC IMANT Responsible Investing / Divestment Plus Actions

The Responsible Investing Actions were derived from direction provided by PRI as well as initiatives and activities UBC IMANT has had in place and believes are important going forward

Objectives	UBC IMANT Actions to Achieve Responsible Investing Objectives
 <p>Establish key performance indicators and targets that align with UBC sustainability goals</p>	<ul style="list-style-type: none">• Define approach for estimating climate risk and measurement of carbon emissions to rapidly reduce climate risk and carbon footprint• Support UBC in setting broad aspirational ESG goals and targets and creating a structured approach to execution and realization• Identify and prioritize Social and Governance considerations, establish measurement methods and targets
 <p>Incorporate responsible investing objectives into active ownership policies and practices</p>	<ul style="list-style-type: none">• Develop and disclose an active ownership policy consistent with the Principles• Incorporate expanded responsible investing objectives into investment policy statements• Assess the capabilities of external investment managers to incorporate ESG issues more broadly• Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to further integrate ESG factors into evolving research and analysis
 <p>Contribute leadership in the responsible investing community</p>	<ul style="list-style-type: none">• Join the United Nation's supported PRI (Principles for Responsible Investing)• Participate in collaborative engagement initiatives• Look for opportunities to collaborate with UBC faculty experts on ESG related research• Explore possibilities of filing shareholder resolutions consistent with long-term ESG considerations• Liaise with like minded institutional investors to engage companies on ESG issues

Bold = short term action

UBC IMANT Responsible Investing / Divestment Plus Actions

The Responsible Investing Actions were derived from direction provided by PRI as well as initiatives and activities UBC IMANT has had in place and believes are important going forward

Objectives	UBC IMANT Actions to Achieve Responsible Investing Objectives
 <p>Enforce ESG disclosure and active tracking by asset managers</p>	<ul style="list-style-type: none"> • Require investment managers to further expand on ESG-related reporting and engagement • Continue to monitor and enhance compliance with ESG voting policy • Promote standardized reporting on ESG issues • Enhance the requirements for responsible investing objectives to be further integrated in annual reports • Increase support for shareholder initiatives and resolutions promoting ESG disclosures
 <p>Report on key performance indicators and progress in achieving targets</p>	<ul style="list-style-type: none"> • Enhance disclosure for how Responsible Investing objectives are integrated within investment practices • Report on progress and achievements relating to key performance indicators and long term goals • Disclose active ownership activities (voting, engagement, and/or policy dialogue) • Communicate and raise awareness with stakeholders about ESG issues and the Principles

-  1. Does the Sustainability Committee believe any actions are missing that UBC IMANT should consider?
2. Does the Sustainability Committee have any comments on if any of the long term actions should shift to the short-term (**bolded actions**) or the reverse?

Bold = short term action

SIGNATORIES



UBC IMANT is Committed to Influencing the Direction of Responsible Investing

UBC IMANT considered different Responsible / Sustainable Investing / Climate Focused Organizations and chose to join PRI given it's eminence and respect in the field



UBC IMANT, with approval from the UBC IMANT Board, has decided to align with the United Nation's supported Principles for Responsible Investing (PRI) on behalf of UBC and the Staff Pension Plan (SPP). The benefits of joining additional organizations will be assessed on an on-going basis. However, it is worth noting that the reporting requirements from PRI will take up significant effort and bandwidth in the next 12-24 months

PRI

Overview	Works to understand investment implications of ESG and to support signatories in incorporating these factors into investment decisions
High-Level Requirements	Investment policy on Responsible Investing approach, staff responsible for implementing RI policy, senior level commitment and accountability measures
Example Signatories	Harvard, University of Toronto, University of California
UBC IMANT Rationale	PRI is the most well respected with the highest number of participants globally of any of the ESG/Responsible/Sustainable Investing organizations. It is the preeminent leader in this space with over 4000 signatories.



Is there a desire for UBC IMANT to join any other organization?

CLIMATE MEASUREMENT METHODOLOGIES



Climate Measurement Methodology Options

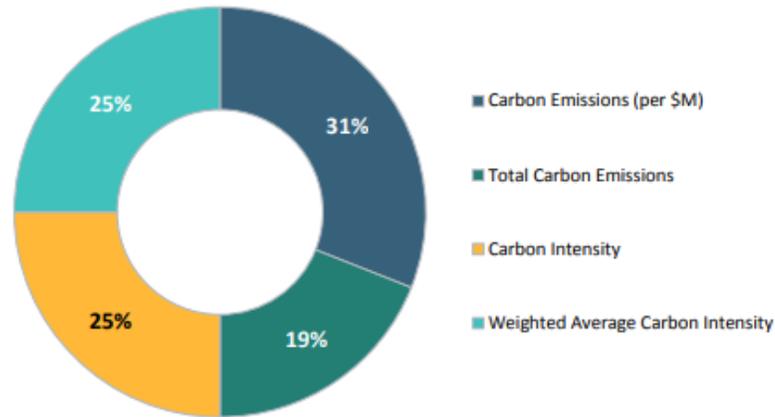
There is currently no formal published methodology to guide the calculation of all facets of investor's Portfolio Carbon Footprint (PCF). Key measures to consider are:

	Carbon Footprint	Normalized Carbon Footprint	Carbon Intensity	Weighted Average Carbon Intensity
	<i>What is my portfolio's total output of carbon emissions?</i>	<i>What is my portfolio's carbon footprint per million dollars invested?</i>	<i>How efficient is my portfolio in terms of total carbon emissions per unit of output?.</i>	<i>What is my portfolio's exposure to carbon intensive companies?</i>
Description	Measures the absolute GHG emissions associated with a portfolio, expressed in tons CO2e	Measures the tonnage of CO2 emissions for which the investors is responsible divided by the size of the portfolio in millions	Measures volume of carbon emissions per million dollars of revenue (carbon efficiency of a portfolio), expressed in tons CO2e / \$M revenue	Measures Portfolio's exposure to carbon-intensive companies, expressed in tons CO2e11 / \$M revenue
Key Points	<ul style="list-style-type: none"> ✓ Easy comparison to other portfolio's and benchmarks ✓ Most direct representation of investments' contribution to overall GHG emissions ✗ Doesn't take into account differences in the size of companies ✗ "Ownership" of emissions only applies to equity investments, making this approach unsuitable for fixed income investments 	<ul style="list-style-type: none"> ✓ Allows for comparison to portfolios of all sizes ✓ Enables further decomposition and analysis of the drivers of the investor's carbon ✗ "Ownership" of emissions only applies to equity investments, making this approach unsuitable for fixed income investments ✗ Sensitive to the company's capital structure 	<ul style="list-style-type: none"> ✓ Allows for comparison of the portfolio to peers & benchmarks ✓ Directly ties emissions efficiency to company operating performance, rather than company valuation ✓ Enables further decomposition & analysis of the drivers of the investor's carbon footprint, ✗ Relatively complex calculation; less intuitive to stakeholders ✗ Changes in underlying companies' market capitalization can be misinterpreted for fixed income investments 	<ul style="list-style-type: none"> ✓ Applicable to all asset classes including fixed income ✓ Simple calculation ✓ Metric allows for portfolio decomposition and attribution analysis. ✗ Metric is sensitive to outliers ✗ Does not consider responsibility of the investor in proportion to their stake in the company

Measurement Methodologies: Choosing the Right Metric

Each metric has differing strengths and weaknesses; each provides distinct insight into a portfolio's exposure to carbon emissions.

Figure 2 – Poll: Which Carbon Portfolio Metric is Most Important?



Source: MSCI

Lack of standard industry practice on emission measurement has made comparison, and thus, evaluation of relative performance difficult. Differences between institutions' portfolio emissions may be driven by size, asset class composition or choices in methodology. It is therefore necessary to consider multiple metrics to get a complete picture. In addition it is important that the metrics are consistently measured and follow the appropriate accounting and reporting principles



Does the Sustainability Committee have any feedback to UBC IMANT on specific measures or things it should consider in valuing the Portfolio Carbon Footprint?

NEXT STEPS



Project progress update from April Board Meeting

The implementation work plan has been aligned with the Project Categories from the April Board report. UBC IMANT has made some progress against the plan but has been focused on managing asset managers during this extremely volatile time in the markets.

Project Categories	Percentage Completion to date
1. Define the Scope of Divestment Plus	
2. Provide Financial Justification of Divestment	
3. Determine the Optimal Operating Model	
4. Review Governance Structure of On-going Divesting Decision Making	
5. Assess Limitations in Various Asset Classes	
6. Enhance Climate Risk Measurement and Reporting	
7. Investigate Cost Structure of Divesting Strategies	
8. Establish New Due Diligence Procedures and Criteria for Divestment	
9. Review Divestment Timeline and Sequence	
10. Assess Market & Manager Capacity for Divesting Strategies	
11. Become signatory of Responsible Investing Communities	



Next Steps



ESG Responsible Investing

- Ongoing review of asset managers against the ESG Framework and Responsible Investing Objectives / Divestment Plus approach



September Board Meeting

- Recommend environmental measures/methodology and discuss goals and targets for UBC