



University
of Victoria

SUBMISSION TO THE UVIC BOARD OF GOVERNORS

January 17, 2020

FOR DECISION

To: FINANCE COMMITTEE

From: VICE-PRESIDENT FINANCE AND OPERATIONS

A handwritten signature in black ink, appearing to read "G. Smith".

cc: President and Vice-Chancellor

Meeting Date: January 28, 2020

Subject: RESPONSIBLE INVESTMENT POLICY FM5215

**Basis for Jurisdiction: Committee's Terms of Reference
Short-Term Investment Policy, FM5200
Policy on Social Responsibility and UVic Investments, FM5215**

Previous Consultation:

Board of Governors, including: #BOG-Apr01/14-05; #BOG-May27/14-16; #BOG-Sept30/14-24;
#BOG-Jan26/16-28; #BOG-Mar26/19; #BOG-May28/19-06, #BOG-Sep24/19-, #BOG-Nov26/19;
#BOG-Jan17-20-01.

Strategic Relevance:

Strategy 5.2 - Review and renew our approach to sustainability in every domain (research, education, community engagement and campus operations) to move toward a comprehensive and integrated approach.

Strategy 5.4 - Ensure that students have opportunities to engage with issues, principles and practices that support social and environmental sustainability, and to develop the knowledge and ethical orientation to contribute to a just, socially responsible and sustainable future.

Strategy 5.5 - Ensure the financial sustainability of the university and our ability to pursue excellence by optimizing existing resources through careful planning, earning public support, attracting partnerships, and pursuing a revitalized program to grow and diversify resources through philanthropic and other means.

Recommendation:

THAT the Finance committee recommend to the Board of Governors that the Board of Governors approve the revised Responsible Investment Policy FM5215, to be effective immediately.

Context:

The university has a long history of environmental stewardship and a commitment to sustainability. This commitment has been demonstrated through critical educational programming, impactful research and campus operational practices and policies that frequently result in UVic being a leader in the post-secondary sector. The university's Strategic Framework states that the university will *be a global leader in environmental, social and institutional sustainability* and that we will *review and renew our approach to sustainability in every domain.*

The climate crisis, caused by excessive emissions of anthropogenic greenhouse gases, is the key global issue of our time. The university's Responsible Investment Policy provides direction on the investment of short term funds such that, within our fiduciary duty, these funds can be utilized to help to address the climate crisis.

The attached renewed policy reflects progressive best practices, our institutional strategic framework and our commitment to addressing climate change by recommending changes that will:

- materially lower the carbon emissions of the portfolio;
- participate in engagement activities to encourage carbon emission reductions;
- allocate a portion of these funds to thematic impact investments including investments in energy companies that will be part of the required transition, and investments that support Indigenous economic development; and,
- encourage better disclosure of carbon emissions and climate related risks.

These changes are a robust response to the feedback received from faculty, students and other campus members/experts and will position the portfolio (through positive and negative screening) to contribute to reductions in carbon emissions required to keep the global temperature rise to 1.5°C, as outlined by the IPCC and the Paris climate agreement. The proposed policy approach to requests for divestment of fossil fuels is in line with those taken by University of Ottawa, Laval, SFU and McGill. This renewed policy will lead to divestment of fossil fuel companies and other high carbon emitters over time.

Background:

The purpose of this document is to provide background and rationale for the Board to assist in its review of a substantially updated Responsible Investing Policy, replacing the previous Policy on Social Responsibility and UVic Investments. The attached draft policy reflects administration's recommended response consistent with the goals in our Strategic Framework and our fiduciary responsibilities. The development of this renewed policy has been informed by:

1. Researching the policies of other universities

A summary of how other institutions in Canada are divesting from fossil fuel investments, adopting responsible investing practices and adopting goals to reduce the carbon intensity of their portfolios can be found in Appendix 2. Of the 17 universities researched (U15, SFU and Concordia), two have committed to divest of coal and oil & gas producers, one has chosen to partially divest of fossil fuel companies, 12 have an Environmental Social and Governance (ESG)/Socially Responsible Investing (SRI) policy, two (and McGill pending) have a specific CO2 reduction target, and six are signatories of climate action initiatives.

2. Feedback from the public consultation process

In order to solicit a wide range of input and ideas for consideration in updating the Policy on Social Responsibility and UVic Investments and the Short Term Investment Policy, feedback was sought from the university community through the UVic Checklist (which is distributed to all faculty and staff) in September 2019. Emails were sent directly to on-campus and off-campus individuals with expertise and /or strong views on responsible investing. Information on the consultation opportunity was on the UVic Treasury website that outlined the process and areas of input. This outreach resulted in both in-person and email engagement with over 15 university stakeholders and stakeholder groups, including, but not limited to, faculty from the departments of Public Administration, Business, Engineering, Environmental Studies and Computer Science, and students from the University of Victoria Student Society (UVSS), the Applied Investment Management Course (AIMC) and the Applied Portfolio Management Program (APMP). Inclusion in UVic Checklist and the Treasury website resulted in very little feedback or identification of additional interested individuals. Consultation with the UVSS was more comprehensive, including six meetings between administration and representatives from the UVSS over the summer and fall which included:

- outlining the governance structures of UVic and the UVic Foundation and the process to engage;
- outlining alternative investment practices (i.e., responsible investing, screening, thematic impact investing) and considering how other post-secondary institutions are implementing these practices; and,
- consulting with the UVSS with respect to updating the University of Victoria policy on Socially Responsible Investing.

Separate from the above consultation process, the University of Victoria Faculty Association (FA) conducted a vote in December 2019 on whether the FA should support fossil fuel divestment. The notice of motion put to the members was: *THAT the Association support the campaign for UVic to divest from fossil fuels*. Out of the 593 (68.6% of eligible participants) participants who voted,

77.1% voted in support of the motion. Similarly the UVSS undertook a vote in 2015 which asked *Do you support the UVSS lobbying the University of Victoria Foundation to withdraw (or 'divest') its direct investments in fossil fuel companies and re-invest the proceeds in the most financially and socially responsible alternative investments?* Of the ~3,100 (18% of eligible voters) students who voted, 77% voted in favour. Both the students (Divest/UVSS) and the FA have provided submissions to the Board in support of their request to divest from fossil fuel companies.

During the September Board meeting, background information was provided to the Board on responsible investing, divestment and shareholder engagements, and feedback was received on further information to be included in the November education session. The November education session was delivered by external experts and also provided the UVSS students with an opportunity to present their position on divestment to the Board of Governors. Discussions at the education session in November, combined with those during the November 26th finance meeting, were used as the basis for developing the attached revised policy on responsible investing.

At the sessions with the Board, and in conversation with those consulted, there was clear agreement that climate change, caused by excessive emissions of anthropogenic greenhouse gases (GHGs), is the key global issue of our time. In turn, our investments should be aligned with the Strategic Framework strategy 5.2, Promote sustainable futures, which states, "Review and renew our approach to sustainability in every domain (research, education, community engagement and campus operations) to move toward a comprehensive and integrated approach." There was also broad consensus around employing investment strategies and tools in order to mitigate climate change risks within our portfolio.

The updated policy has been drafted to reflect the above areas of agreement, reflecting the fact that GHG reduction is essential to address climate change and in keeping the global temperature rise to 1.5°C, as outlined by the Intergovernmental Panel on Climate Change (IPCC) and the Paris climate agreement.

Overview of the Policy

Based on the above, the revised policy on responsible investment includes the following new goals and outcomes for the university's short-term investments:

- Use the strategic framework of the university to guide its short-term investment decisions in supporting sustainable futures and Indigenous economic development;
- Use university short-term investments to address the physical and transitional risks and opportunities of climate change;
- Use positive and negative screening to materially lower the carbon emissions of the portfolio. Policy recommendation is to reduce carbon intensity by at least 45% by 2030 in line with the IPCC report;
- Use a responsible investment approach to manage investment risks;
- Contribute to the development of a framework for sustainable finance as recommended by the Canadian Expert Panel on Sustainable Finance;
- Encourage disclosure by our investment managers of relevant climate risks as recommended by the Task Force for Climate Related Financial Disclosure (TCFD); and

- Invest in opportunities that work toward addressing societal challenges and that further the UN Sustainable Development Goals (SDGs), with particular emphasis on promoting sustainable futures and the support of Canadian Indigenous economic development (See Appendix 3).

The implementation of these goals would support global GHG reduction as tracking and reducing the carbon intensity of the investments will lead to investing in companies with a positive track record in GHG reduction. Carbon intensity is determined by carbon footprinting a portfolio, which is the sum of a proportional amount of each portfolio company's emissions (proportional to the amount of the investment held in the portfolio).

A carbon footprint is a useful quantitative tool that can inform the creation and implementation of a broader climate change strategy. Measuring the carbon footprint of a portfolio means you can compare it to benchmarks, identify priority areas and actions for reducing emissions, and track progress in making those reductions. Carbon footprinting is a maturing practice and is generally not yet available for non-publicly traded assets as outlined in the presentation by the university's investment manager, PH&N, with regards to the Short Term Bond Portfolio. Carbon footprinting also usually only applies to the scope 1¹ and 2 emissions of companies and does not include scope 3 emissions. Recognizing there are limitations, investors that carbon footprint their portfolios can improve their understanding of relevant portfolio risks and opportunities in the context of climate change, and are better poised to respond to stakeholder questions on climate change issues and can demonstrate publicly their commitment to tackle climate change.² As carbon footprinting becomes more broadly available, we will expand its use.

Setting targets to materially lower carbon emissions of the entire portfolio is recommended as a holistic way to ensure alignment of our investments with a GHG reduction goal. It is also consistent with measures in the university Sustainability Action Plan that include GHG reduction. Lowering the carbon footprint of the portfolio will result in divestment from high carbon-emitting companies (in the energy industry and other industries) and allow for investment in energy companies that will be part of the required energy transition. This approach will lead to the divestment of high-emitting fossil fuel companies, in conjunction with other high-emitting companies in other sectors. This approach has been adopted by the University of Ottawa and Simon Fraser University, and has recently been recommended at McGill University.

As noted above, the proposed policy goals and tools will provide a form of screening that will move investments away from carbon-intensive industries and towards climate friendly / sustainable investments. While it will not result in industry wide divestment from all fossil fuel extraction companies, the screening criteria outlined in the revised policy in many ways goes further as it will apply to high carbon emitting companies in all industries. External experts

¹ Scope 1 emissions are GHGs resulting from sources that are owned and controlled by the emitter. Scope 2 emissions are GHGs resulting from the purchase of electricity, heat or steam by the emitter, and scope 3 are GHGs resulting from sources not owned or directly controlled by the emitter, such as employee commute to work

² <https://www.unpri.org/climate-change/how-measuring-a-portfolio-carbon-footprint-can-assist-in-climate-risk-mitigation-and-reducing-emissions/608.article>

presenting at the Board session in November indicated there is considerable doubt that divestment of fossil fuels companies would reduce GHGs.

In order to determine the carbon footprint of the portfolio we will require our external investment managers to regularly report on carbon intensity. To ensure we meet reduction targets we will also need to do one or more of the actions below:

- work with our existing managers to adjust our investments;
- change investment managers; and,
- review the short-term pool asset allocation.

It is important to note that implementing this approach will take time as the investment industry evolves its approach to carbon footprinting. Initially, our goal will be to track the carbon emissions of all our corporate issuers.

In determining the appropriate GHG reduction target, three options were considered to set clear investment-related climate targets:

1. Align with Canada's pledge in the Paris Agreement and reduce the carbon intensity (carbon emissions per \$ million) of our short-term investments by at least 30% by 2030.
 - a. University of Ottawa targeted to reduce its portfolio emissions by 30% by 2030 days after the Paris Agreement.
2. Align with the Province's CleanBC target and reduce the carbon intensity of our short term investments by at least 40% by 2030 in order to align with province's CleanBC target;
3. Align with a custom timeline: Set a different timeline to achieve reduction targets.
 - a. In December, SFU announced it will move toward decreasing carbon on the equity investments within its endowment by 45% from 2015 levels over the next six years. SFU created a custom timeline to reduce fossil fuel producer holdings by 45% by 2025. The target increased twice from a previous target of 30% and then 40% by 2030.

A 45% carbon reduction target by 2030 has been recommended to align with the 2019 IPCC report. This target will need to be reviewed and updated as implementation activities are undertaken and as sustainable approaches to investment evolve and become industry standard.

Implementation Activities

The policy recognizes the importance of incorporating ESG factors in its investment approach. To do this we will undertake the following activities in implementing this policy:

1. *Become a signatory to the United Nations Principles of Responsible Investment (UNPRI) - Based on the six principles outlined in the policy, the actions to be undertaken by UVic would include:*

Principles	Actions
<p>Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.</p>	<ul style="list-style-type: none"> - Consider how external investment managers incorporate ESG issues into their decision-making process. - Provide ESG training for our investment professionals.
<p>Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.</p>	<ul style="list-style-type: none"> - Consider how external investment managers engage with management to improve ESG practices. - Encourage external investment managers to integrate ESG into proxy voting and engagement activities. - Review opportunities to participate in collaborative engagement initiatives.
<p>Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.</p>	<ul style="list-style-type: none"> - Require external investment managers to provide annual disclosure regarding their ESG incorporation processes (Due diligence questionnaire). - Require external investment managers to report on proxy voting and engagement activities. - Require external investment managers to provide annual disclosure of the carbon emission intensity of their investments. - Review opportunities to participate in collaborative initiatives to promote ESG disclosure.
<p>Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.</p>	<ul style="list-style-type: none"> - Require external investment managers to be UNPRI signatories. - Communicate ESG expectations to our external investment managers. - Consider supporting regulatory or policy developments on responsible investment.
<p>Principle 5: We will work together to enhance our effectiveness in implementing the Principles.</p>	<ul style="list-style-type: none"> - Participate and support networks and information platforms in order to pool resources and share tools. - Address relevant issues collectively with asset owners and managers.
<p>Principle 6: We will each report on our activities and progress towards implementing the Principles.</p>	<ul style="list-style-type: none"> - Disclose the holdings within the short-term investments. - Disclose ESG integration in our investment process. - Disclose active ownership activities including proxy voting and engagement. - Disclose practices of our short-term investments by aligning with the TCFD.

As a result of undertaking the activities above, material ESG risks across our entire portfolio will be considered. In becoming a signatory, the university will need to comply with UNPRI's 2020 climate-related reporting requirements which includes reporting and disclosure on climate-related indicators

2. *Align the disclosure practices of our short-term investments with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).*

The TCFD develops voluntary and consistent climate-related financial risk disclosures for companies by considering physical, liability and transition risks associated with climate change.

Along with this disclosure, it is also recommended that the university outline how each investment strategy is aligned with the report from the Expert Panel on Sustainable Finance published in June, 2019. This report was produced by the Government of Canada with the vision that "the right finance and investment structures can help fight climate change and build the low carbon economy," and is a good guide to improving investment practices. This approach of considering TCFD disclosure aligns with recommendation 5 from the Expert Panel on Sustainable Finance found in Appendix 4.

3. *Active Ownership: Proxy Voting*

There was consensus during consultation that proxy voting was something the university should undertake. The recommended policy includes proxy voting although this will not be applicable unless the short-term investment policy is amended to include equity investments. If there are equity investments, proxy voting could be delegated to our external investment managers with the university retaining the right to direct how shares are voted. We would encourage our external investment managers to vote in support of proposals that align with the university's Strategic Framework, and support climate transition and risk mitigation. Proxy voting aligns with recommendation 8 from the Expert Panel on Sustainable Finance found in Appendix 4.

If equities become part of the investment portfolio, administration will consider the following with respect to proxy voting:

- Consider proxy voting reviews requiring our external investment managers to outline their proxy voting guidelines and proxy voting records on a regular basis.
- Consider defining proxy voting guidelines on climate-related issues to promote sustainable futures by require external investment managers to generally support requests that:
 - Seek for companies to report with frameworks and recommendations that require disclosure of environmental and climate risks including the Task Force on Climate Related Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB);
 - Seek environmental and climate reporting when the company does not report and monitor on material environmental and climate risks;
 - Seek additional environmental and climate reporting when the company clearly lags behind their peers; and

- Seek to mitigate environmental and climate risks and/or seek to adopt policies or initiatives that protects the environment.

4. *Active Ownership: Engagement*

The revised policy includes a recommendation to utilize engagement activities as a way to change behavior. While not everyone consulted agreed that this approach is always effective, many supported the university taking this approach. Given the size of the university's investments, we rely on our external investment managers to engage on our behalf, and we expect them to act in the best interests of the university by engaging with companies on material ESG issues. In addition, we will undertake collaborative engagement both formally and informally on issues that support our Strategic Framework, support climate transition and risk mitigation, and support material ESG issues. Engagement aligns with recommendation 5 from the Expert Panel on Sustainable Finance found in Appendix 4.

The following are options that the university will consider as potential engagement activities:

- Direct collaborative engagement through the UNPRI, which hosts a collaboration platform that allows investors to sign joint letters to companies, join investor-company engagements, suggest research proposals and foster dialogue with policy makers. As an example, investors are currently using the platform to engage airline and aerospace companies to issue an expectation statement on climate change;
- Direct collaborative engagement through Climate Action 100+, which uses collaborative engagement to pressure companies to align with the Paris Agreement, strengthen board and executive oversight on climate change risks and opportunities, and enhance corporate disclosure by using TCFD's framework; and,
- Indirect collaborative engagement through an external organization such as SHARE that will engage companies on behalf of the university on climate-related or other priority areas through proxy voting recommendations or shareholder engagement.

5. *Screening*

During consultation there was not consensus on what form of screening was the most effective tool. The revised policy provides for screening and outlines the criteria to be used if screening is a tool to be used within the short-term pool. The criteria includes:

- The screen supports responsible investment goals outlined in section 7.0 of the policy;
- Proven social, environmental or economic rationale supported by research from multiple bodies widely regarded as impartial and objective;
- Compelling evidence that screening is an effective way to achieve the desired outcome; and,
- Screening which must be consistent with the legal and fiduciary obligations of the university.

This screening approach enables the GHG intensity-reduction goal as it provides policy support for screening out higher emitting companies in favour of lower emitting companies. Applying the policy as proposed would mean that divestment of fossil fuel extraction companies would occur incrementally as the portfolio GHG intensity is reduced. Screening for lower GHG intensity investments would also likely support investment in renewable energy sources given their lower GHG intensity.

6. Thematic Impact Investing

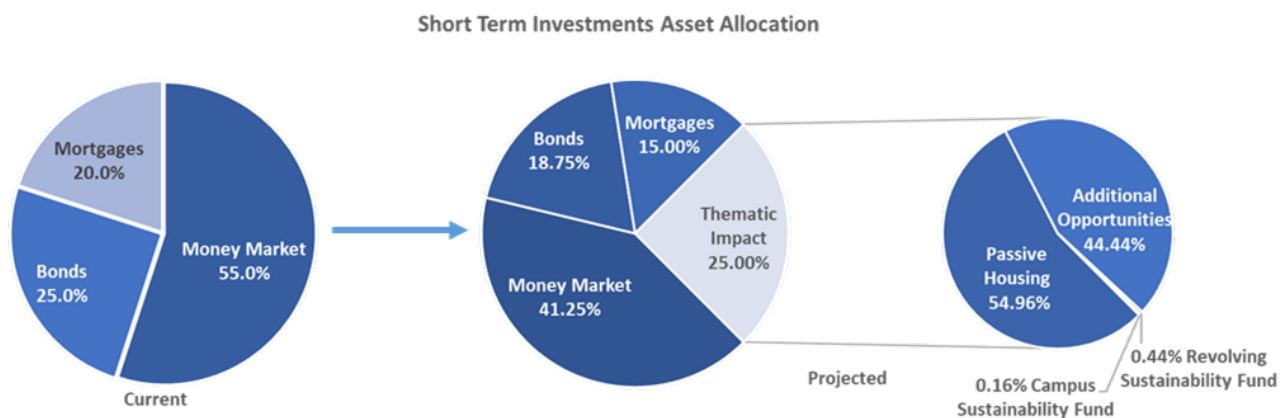
During consultation and discussion at the Board there appeared to be consensus that the university should undertake thematic impact investing in support of the Strategic Framework and to support climate solutions. Another example of investments in support of the Strategic Framework are investments in support of Indigenous economic development. The policy has been updated to allow for thematic impact investing and it is recommended that up to 25% of short-term investments be allocated to thematic impact investments that are in alignment with our sustainable investment goals and our Strategic Framework. Thematic impact investing is consistent with recommendation 9 and 13 from the Expert Panel on Sustainable Finance and has the effect of divesting from more carbon-intensive investments.

Current/proposed thematic private impact investment holdings (~14% of the current portfolio):

- i. ~\$31 million in passive housing loan (commitment)
- ii. ~\$250 thousand in revolving sustainability fund
- iii. ~\$100 thousand in campus sustainability fund

Opportunities to consider for up to an additional (~10%):

- iv. Impact GICs
- v. Green Bonds
- vi. Impact Bonds
- vii. Global Public Equities
- viii. Indigenous economic development



Current: Showing short-term investments benchmark composition

Thematic-Impact Sleeve: Percentage projections based on trailing 12-month Assets under management of ~\$225.68 million

Next Steps:

- Prepare an implementation plan that is expected to include the following steps:
 - Carbon footprint existing investments;
 - Become a signatory of the UNPRI;
 - Explore engagements opportunities;
 - Conduct an asset mix review to explore options to achieve our financial returns and the portfolio carbon reduction targets;
 - Review impact investments as part of the asset mix review;
 - Based on the asset mix review present options to update the short term investment policy;
 - Develop an approach for communicating progress on the goals; and,
 - Share the renewed policy with the Board of the Foundation.

As noted in the policy, there will be a report annually to the Board on activities. An outline of the report will be presented at a future Board meeting for feedback.

ATTACHMENTS:

Appendix 1: Responsible Investment Policy FM5215- Draft

Appendix 2: Canadian Post-Secondary Update

Appendix 3: United Nations Social Development Goals (SDGs)

Appendix 4: Recommendations from the Final Report of the Expert Panel on Sustainable Finance

Appendix 1: Responsible Investment Policy – Draft



Responsible Investment Policy

University Policy No: FM5215
Classification: Financial Management
Approving Authority: Board of Governors
Effective Date: TBD
Supersedes: September/02
Last Editorial Change: May/97
Mandated Review: TBD (suggested 4 years after approval date)

Associated Procedures:

Preamble

- 1.00 The University of Victoria ("the University") has short-term investments that arise from its operations that are mainly invested by external professional managers through pooled funds. These monies are distinct from pensions, the Student Investment Fund and endowments that are managed under separate governance structures. These short term funds arise from operating and research funding received in advance, unspent annual budgets that are carried forward, insurance reserves and other funds set aside for future purposes such as the replacement of equipment, major capital projects and other significant initiatives.

In order to ensure that these funds are available for the operations of the university, the investment objectives of these funds are:

- (a) to preserve capital;
- (b) to ensure availability of cash by investing a portion of the Funds in liquid short-term investments that can be easily converted to cash to fund operations with low risk of principal loss; and,
- (c) to provide investment returns with a low level of volatility

Purpose

- 2.00 The purpose of this policy is to set out responsible investment goals with respect to the investment of the University's short term funds.

Definitions

"Collaborative Engagement" is collaborating with like-minded investors to exchange information and pool resources to influence and improve company governance/practices, supportive of public policies and capital market regulations.

"Engagement" is the process of communicating with the management and boards of equity and fixed income issuers in our portfolio. Through engaging with companies, we are

able to better understand a company's position on material issues that help us evaluate ESG risks and opportunities.

“Proxy voting” Most listed equities have voting rights attached to them. Proxy voting is the process of casting ballots as a shareholder of a public company. Shareholders receive a proxy ballot along with an information booklet called a proxy statement describing the issues to be voted on, such as electing directors to the board, ESG factors and approving a stock compensation plan.

“Responsible investment” is an approach that aims to incorporate environmental, social and governance (ESG) factors into investment decisions in order to better manage risk and generate sustainable long-term returns.

(a) Environmental: Factors relating to a company's interactions with the physical environment. These include (but are not limited to) climate change; greenhouse gas emissions; biodiversity loss; deforestation; air, water or resource depletion or pollution; waste management; change in land use; and ocean acidification.

(b) Social: Factors relating to business practices that have an impact on the rights, well-being and interests of people and communities. These include (but are not limited to) human rights; labour standards in the supply chain; child, slave and bond labour; workplace health and safety; freedom of association and freedom of expression; human capital management and employee relations; diversity; relations with local communities (including indigenous communities); activities in conflict zones; health and access to medicine; consumer protection; and controversial weapons.

(c) Governance: Factors relating to the governance of a company. These include (but are not limited to) board structure, composition, size, diversity, skills and independence; executive pay; shareholder rights; stakeholder interactions; transparency; business ethics; bribery and corruption; internal controls; and conflicts of interest.

“Screening” is the filtering process used to either identify certain investments to include or to find those that should be excluded/included from an investors' portfolio based on given criteria.

“Task Force on Climate-Related Financial Disclosures” (TCFD) is an international consortium that develops voluntary and consistent climate-related financial risk disclosures for companies by considering physical, liability and transition risks associated with climate change.

“Thematic Impact investments” are made by investing in assets that stand to benefit from macro-level trends with the intention to generate positive, measurable social and environmental impact alongside a financial return. These investments can be public or private investments and target a range of returns.

“UN Principles for Responsible Investment (UNPRI)” is an organization that began as a United Nations initiative to advocate for responsible investment.

“UN Sustainable Development Goals” were adopted by all United Nations Member States in 2015 and include 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests

Jurisdiction / Scope

- 3.00 The funds are to be invested in accordance with Section 57 of the University Act, which states that "subject to a contrary intent expressed in a gift, devise bequest or trust, Section 15 of the Trustee Act does not apply to investments made by a board of a university and each board (a) may invest money belonging to the university and available for investment, and (b) must, when investing under paragraph (a), make investments that a prudent person would make."
- 4.00 This policy applies to all short term investments managed by policy FM5200.

Policy

- 5.00 The University of Victoria is deeply committed to sustainability, and the critical need to address climate change across society and in every university domain (research, education, community engagement, and campus operations). Our goal is to be a global leader in environmental and societal sustainability including responding to the critical global issue of climate change.
- 6.00 The University believes responsible investing, taking environmental, social and governance (ESG) factors into consideration, will reduce long-term risks and improve risk adjusted returns.
- 7.00 The goals of this policy are to:
- 7.01 Use the strategic framework of the University to guide its short term investment decisions in promoting sustainable futures and supporting Indigenous economic development;
 - 7.02 Use university short term investments to address the physical and transitional risks and opportunities of climate change;
 - 7.03 Use positive and negative screening to reduce the carbon intensity of investments by at least 45% by 2030¹;
 - 7.04 Use a responsible investment approach to manage investment risks;

- 8.00 The University will use tools, when administratively feasible, in order to achieve its responsible investing goals, including but not limited to:

- 8.01 Become an UNPRI signatory
As a signatory of the UNPRI, the University will abide by their six guiding principles and take the following actions:

Principle 1:

We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2:

¹Reflecting the 2019 Report from the Intergovernmental Panel on Climate Change (IPCC)

We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3:

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4:

We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5:

We will work together to enhance our effectiveness in implementing the Principles.

Principle 6:

We will each report on our activities and progress towards implementing the Principles.

8.02 TCFD
Aligning the disclosure practices of our investments managers with the TCFD recommendations.

8.03 Exercise Active Ownership through:
(a) Proxy Voting
(b) Engagement

8.04 Utilize Screening consistent with the following:

In addition to the screening used to achieve our carbon reduction goals as outlined in 7.03, the university will consider utilizing screening when all the following conditions are met:

- (a) The screen supports goals outlined in section 7;
- (b) Proven social, environmental or economic rationale supported by research from multiple bodies regarded as impartial and objective.
- (c) Compelling evidence that screening is an effective way to achieve the desired outcomes outlined in section 7;
- (d) Screening must be consistent with the legal and fiduciary obligations of the University; and
- (e) Screening must be consistent with academic freedom; investment decisions will not be made where the primary goal is to signal an institutional position on issues that should remain matters of open debate and dialogue.

8.05 Make Thematic Impact Investments (Private and Public)
The University will undertake thematic impact investments that align with its investment objectives in section 1 and responsible investment goals as outlined in section 7 and invest in opportunities that work toward addressing societal challenges that further the UN Sustainable Development Goals (SDGs).

Reporting

9.00 A report on responsible investment activities and their related goals will be submitted at least annually to the Board of Governors and the university community.

Authorities and Officers

The authorities and officers for this policy are:

- (i) Approving Authority: Board of Governors
- (ii) Designated Executive Officer: Vice President Finance and Operations
- (iii) Procedural Authority: Vice President Finance and Operations
- (iv) Procedural Officer: Vice President Finance and Operations

Relevant Legislation

[University Act](#)

Related Policies and Documents

[Short Term Investment Policy](#) (FM5200)

Appendix 2: Canadian Post-Secondary Update

Summary of Universities that have Recently Revised their Approaches

Key Highlights	Fossil Fuel Divestment	Fossil Fuel Free Fund	ESG/SRI in Policy	Specific CO2 Reduction Target	Signatory with Climate Action Initiatives	Impact Investing
University of Victoria (Current)	X	X	X	X	X ¹	✓ ¹
University of Victoria (Proposed)	X	X	✓	✓ - 45% by 2030	✓ - UNPRI	✓
University of Victoria Foundation	X	✓	✓	X	✓ - UNPRI	X
University of British Columbia	X	✓ ²	✓	X	X	X
Simon Fraser University	X	✓	✓	✓ ³ - 45% by 2025	✓ - UNPRI	X
University of Toronto	X	✓	✓	X - Tracking ⁴	✓ - UNPRI, MCP, CA, CDP	X
University of Ottawa	X	✓	✓	✓ - 30% by 2030 ⁵	✓ - UNPRI, MCP	✓ ⁵
Concordia University	✓ ⁶	✓	✓	X	✓ - UNPRI	✓ ⁶
University of California	✓ ⁷	✓	✓	X	✓ - UNPRI	X

1. UVic has invested in the Revolving Sustainability Fund and the Campus Sustainability Fund. It has also pledged to provide a \$31 million passive housing loan. The updated policy proposes to allocate up to 25% of the short term pool assets.
2. UBC will divest \$380 million in land sale gains from its endowment and create a "Sustainable Fund" free from fossil fuel producers.
3. SFU will reduce the carbon footprint of its equity portfolio by 45% by 2025.
4. U of T is tracking and reporting the carbon emissions and carbon intensity of its portfolio.
5. U of O will reduce the emissions of its portfolio by 30% by 2030. It pledged to invest in climate solutions but the amount is unclear.
6. Concordia University will divest completely from fossil fuel producers and aims to allocate 5% - 10% of its long-term pool in impact opportunities.
7. University of California has divested from fossil fuel producers due to financial risk.

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

G15 Universities and other Global Universities

Key Highlights	Fossil Fuel Divestment	Fossil Fuel Free Fund	ESG/SRI in Policy	Specific CO2 Reduction Target	Signatory with Climate Action Initiatives	Impact Investing
University of Alberta	X	X	✓	X	X	X
University of British Columbia	X	✓	✓	X	X	X
University of Calgary	X	X	X	X	X	X
Dalhousie University	X	X	✓	X	✓ - UNPRI	X
Universite Laval	✓	✓	✓	✓ - 50% by 2030	✓ - UNPRI (Announced)	X
University of Manitoba	X	X	X	X	X	X
McGill University	X	✓	X	X - Tracking	X	X
McMaster University	X	X	✓	X - Tracking	X	X
University de Montreal	X	X	✓	X	✓ - UNPRI, GICCC	X
University of Ottawa	X	✓	✓	✓ - 30% by 2030	✓ - UNPRI, MCP	✓
Queens University	X	X	✓	X	X	X
University of Saskatchewan	X	X	X	X	X	X
University of Toronto	X	✓	✓	X - Tracking	✓ - UNPRI, MCP, CA, CDP	X
University of Waterloo	X	X	✓	X	X	X
University of Western Ontario	X	X	✓	X	X	X

Other Global Universities	Fossil Fuel Divestment	Fossil Fuel Free Fund	ESG/SRI in Policy	Specific CO2 Reduction Target	Signatory with Climate Action Initiatives	Impact Investing
Harvard University	X	X	✓	X	✓ - UNPRI, CA, CDP	X
Stanford University	✓ - Coal & Tar Sands	X	✓	X	X	X
Yale University	X	X	✓	X	X	X
University of California	✓	✓	✓	X	✓ - UNPRI	X
Oxford University	✓ - Coal & Tar Sands	X	✓	X	✓ - GICCC	X
Cambridge University	✓ - Coal & Tar Sands	X	✓	X	X	✓

University of British Columbia

- On November 24th, 2019, UBC's board of governors voted to move \$380 million from its main \$2 billion endowment into a "Sustainable Fund" which will be free from fossil fuel producers.
 - It is currently in the process of conducting analysis on climate risk of investments.
 - It is currently in the process of identifying financial opportunities to benefit from climate transition.
- On December 5th, 2019, UBC declared a climate emergency and are moving forward on two divestment initiatives:
 - Inform the university on how it can move forward with full divestment of fossil fuels in its main endowment (\$1.71 billion).
 - Inform the university on financial and legal reviews of transferring the \$380 million from its main endowment to the low carbon and fossil fuel free sustainable future pool (Transfer expected to be complete before April 16, 2020).
- UBC will consider the full scope of its impact to align its emissions reductions plan with the 1.5-degree scenario.
- UBC is taking additional steps to review its investments by addressing:
 - Effective ways that UBC can influence companies to pursue sustainable approaches.
 - How to mitigate potential penalties for removing investments from pooled funds that contain fossil fuels.

- Effective ways to allocate divested assets to alternative funds in line with its fiduciary duty.

University of Ottawa

- After requests to divest starting 2013, U of O conducted an 18-month analysis on its investment practices.
 - Analysis covered the University’s sustainability practices including operations, investments, and research.
- In 2016, U of O decided to reduce the carbon emissions in its equity portfolio by 30% by 2030.
 - Its policy targeted to meet Paris Agreement ratified earlier in the year.
 - U of O does not believe divestment is effective to address carbon risk.
 - It pledged to invest in renewable energy and clean energy solutions.
 - It pledged to enhance responsible investment practices.
- When adopting the GHG reduction approach U of O stated:
 - “In addition, divestment poses the difficult question “where to draw the line”: does it mean only selling shares in fossil fuel producers? Or does it also mean selling shares in those companies that sell or transport fossil fuel? What of those that are major users of fossil fuels? What degree of fossil fuel use is sufficient to trigger divestment? This definitional dilemma is very difficult to resolve;”
 - If divestment is to be limited to fossil fuel producers, once again the gesture seems ineffective. Such companies comprise a relatively small component (of GHG emissions)..., and GHG emissions are largely driven by other industries. In fact, more than 75% of the GHG emissions from our public equities come from other sectors, so that reallocation of our investments from the fossil fuel component would have negligible impact on GHG emissions;
 - Divestment will not reduce the demand side, which is the real driver of the fossil fuel industry. The most effective way to reduce demand is by consuming less ourselves (as we are committed to do) and developing new technologies that will replace carbon-using practices;
 - Selling the University’s shares would involve a buyer on the other side and that change in ownership would not impact the companies’ access to capital or reduce global GHG emissions;”

Simon Fraser University

- In November 2016, SFU pledged to reduce the carbon footprint on the equity holdings of its \$900 million portfolio by at least 30% by 2030.
 - SFU does not believe divestment is effective to address carbon risk.
 - Its policy targets to meet Paris Agreement ratified earlier in 2016.

- In January 2019, SFU pledged an additional 10% in carbon footprint reduction on its equity investments, resulting in a 40% reduction by 2030.
 - Its new target is likely to meet CleanBC's target.
- On November 28th, 2019, SFU's board voted to increase its commitment to reduce carbon footprints on its equity investments by 45% below baseline measures as at March 31, 2016 by 2025.

University of Toronto

- U of T has acknowledged the threat of climate change.
- U of T will not implement divestment for political reasons.
 - It is currently tracking the CO2 emissions and carbon intensity on the equity portion of its portfolio.
 - It believes that responsible investment tools including ESG integration, manager selection, active engagement and proxy voting are more effective ways to address climate change risk in companies.

Concordia University

- In November 2019, The Concordia University Foundation committed to divest from the coal, oil and gas sector by 2025.
 - The Foundation currently holds \$14 million fossil fuel assets, roughly 5.7% of its portfolio.
- Concordia is the first university in Quebec to target a portfolio free from fossil fuels.
- By 2025, Concordia is targeting to have 10% of its long-term pool allocated to impact investments that generate social and environmental impact alongside financial returns.

McGill University

- In 2018 McGill's senate voted for a resolution to review divestment through its Committee to Advise on Matters of Social Responsibility (CAMSR). On December 3rd, 2019 the committee returned with the following recommendations:
 - Divestment is not an effective approach to tackle climate change.
 - Decarbonize - Reduce carbon emissions of portfolio by a percentage set against a determined reference index or benchmark, which will involve a reduction of exposure to carbon intensive companies in the portfolio, including some within the fossil fuel industry.
 - Invest in solutions through various assets including bonds, private investments, real assets, etc.
 - Increase investment in fossil fuel free fund.

- Review and improve the university's engagement practices.
 - Integrate ESG into university investments.
 - Conduct a review on the university's SRI practices and report annually.
 - Demonstrate institutional leadership in climate change solutions through its investments, research and operations.
- On December 6th, 2019, McGill declared to take action by:
 - Reducing the overall carbon footprint of MIP, which will result in divesting from highly carbon intensive companies, including those within the fossil fuel industry.
 - Intensifying holdings in low-carbon funds, as well as funds that contribute to decarbonization, such as clean technologies and renewable energy infrastructure.
 - Increasing investment in the University's existing fossil-fuel-free fund.
 - Taking an active stewardship role, where possible, with investment companies.
 - Amending the MIP Statement of Investment Policy's investment objectives to reflect the University's environmental commitment.
 - Communicating McGill's socially responsible investment (SRI) activities. This annual SRI report is to include metrics such as the percentage of portfolio managers that are signatories of the United Nations' Principles for Responsible Investment (UNPRI) or have an environmental, social and corporate governance (ESG) policy.

Appendix 3: United Nations Social Development Goals (SDGs)

Goal 1: End poverty in all its forms everywhere.

Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

Goal 3: Ensure healthy lives and promote well-being for all at all ages.

Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

Goal 5: Achieve gender equality and empower all women and girls.

Goal 6: Ensure availability and sustainable management of water and sanitation for all.

Goal 7: Ensure access to affordable reliable, sustainable and modern energy for all.

Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

Goal 10: Reduce inequality within and among countries.

Goal 11: Make cities and human settlements inclusive, safe, resilient and sustainable.

Goal 12: Ensure sustainable consumption and production patterns.

Goal 13: Take urgent action to combat climate change and its impacts.

Goal 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development.

Goal 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

Goal 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development.

Appendix 4: Recommendations from the Final Report of the Expert Panel on Sustainable Finance

Recommendation 1: Map Canada's long-term path to a low-emissions, climate-smart economy, sector by sector, with an associated capital plan.

Recommendation 2: Provide Canadians the opportunity and incentive to connect their savings to climate objectives.

Recommendation 3: Establish a standing Canadian Sustainable Finance Action Council (SFAC), with a cross-departmental secretariat, to advise and assist the federal government in implementing the Panel's recommendations.

Recommendation 4: Establish the Canadian Centre for Climate Information and Analytics (C3IA) as an authoritative source of climate information and decision analysis.

Recommendation 5: Define and pursue a Canadian approach to implementing the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

Recommendation 6: Clarify the scope of fiduciary duty in the context of climate change.

Recommendation 7: Promote a knowledgeable financial support ecosystem.

Recommendation 8: Embed climate-related risk into monitoring, regulation and supervision of Canada's financial system.

Recommendation 9: Expand Canada's green fixed income market, and set a global standard for transition-oriented financing.

Recommendation 10: Promote sustainable investment as 'business as usual' within Canada's asset management community.

Recommendation 11: Define Canada's clean technology market advantage and financing strategy.

Recommendation 12: Support Canada's oil and natural gas industry in building a low-emissions, globally competitive future.

Recommendation 13: Accelerate the development of a vibrant private building retrofit market.

Recommendation 14: Align Canada's infrastructure strategy with its long-term sustainable growth objectives and leverage private capital in its delivery.

Recommendation 15: Engage institutional investors in the financing of Canada's electricity grid of the future