

University of Waterloo
RESPONSIBLE INVESTING WORKING GROUP
Report to the Board of Governors
5 June 2018

This report is submitted following the committee's meetings since the last formal report to the 6 June 2017 Board of Governors; eight meetings were held between 26 June 2017 and 22 May 2018. This report is recommended for inclusion in the regular agenda.

RECOMMENDATION

Motion: That the Board of Governors endorse the recommendations of the report of the working group as described in Attachment #1, and further that the Board of Governors direct that such actions as outlined in the report be prepared and brought forward to the Board of Governors on the timelines described.

Rationale: The Board of Governors ("Board") approved a motion to form the Responsible Investing Working Group ("RIWG") on 7 June 2016. The RIWG began work in January 2017 with the mandate to make recommendations to the Board through the appropriate committees and subcommittees as to whether and how to incorporate environmental, social and governance (ESG) factors into decision-making regarding the investment of endowment and pension funds.

The RIWG, in carrying out its mandate, deliberately engaged a broad range of interested constituencies in an open, transparent manner to provide significant opportunities for input from multiple sources and perspectives. These included students, faculty, staff, alumni, retirees, and donors. This approach aimed to ensure that the fullest possible array of perspectives from the University community would be considered. As a result of the group's environmental scan, direct outreach and extensive consultation, the RIWG has provided key observations as well as a set of recommendations that would provide an important start for the University in the fast-evolving space of responsible investing.

Recommendations of the RIWG were to be subject to review and approval by the Registered Pension Plan Investments Subcommittee, Finance & Investment Committee and Pension & Benefits Committee, in accordance with their mandates. It should be noted that because the Registered Pension Plan Investments Subcommittee encountered difficulty in populating its membership, for the purposes of the working group's reporting only the Finance & Investment Committee and the Pension & Benefits Committee were consulted during the process. Both the Finance & Investment Committee and Pension & Benefits Committee endorsed the attached report unanimously at the respective 17 May 2018 and 18 May 2018 meetings.

/mg

Bruce Gordon,
Chair

Report of the Responsible Investing Working Group
to the
Board of Governors of the University of Waterloo

June 2018

Summary

The Responsible Investing Working Group recommends that the Board of Governors:

1. Formally adopt environmental, social and governance (ESG) factors as a valid and important lens to be integrated into the investment decision-making processes for the endowment and pension investments;
2. Adopt the Guiding Principles and the Guidelines for the Application of ESG Principles contained in this report for University investments;
3. Undertake to make the necessary amendments to the Pension SIPP and to the Investment Guidelines for the each of the Endowment and IQC, to reflect the adoption of ESG factors in the investment decision-making process; these documents currently state that the University does not take ESG factors into consideration;
4. Direct staff to prepare a plan for the Board of Governors (outlining the costs and the monitoring and reporting requirements) for the University to become a signatory in good standing to the UN PRI with a target timeline of 12 months;
5. Explore and evaluate potential social impact investments, which would aim to provide an acceptable risk-adjusted rate of return along with the opportunity to generate positive social impact, with the aim to launch a pilot investment in this space in one year's time;
6. Commit to reviewing progress on the implementation of the recommendations outlined herein on an annual basis.

Formation and Mandate

The Board of Governors ("Board") approved a motion to form the Responsible Investing Working Group ("RIWG") on 7 June 2016. The RIWG began work in January 2017 with the mandate to make recommendations to the Board through the appropriate committees and subcommittees as to whether and how to incorporate environmental, social and governance (ESG) factors into decision-making regarding the investment of endowment and pension funds, taking into consideration:

- Legal and regulatory requirements including, among other things, fiduciary responsibilities, investing and investments, ESG reporting and contractual commitments;
- The goals and purposes of the University pension and endowment funds;
- Existing University investments, policy and governance frameworks;
- The financial context of the University;
- Research into options for incorporating ESG factors into investment decisions;
- Approaches taken at peer institutions;
- The views of University stakeholders e.g., retirees, alumni, donors; and
- The perspectives and advice provided by University investment advisors and managers.

Recommendations of the RIWG were to be subject to review and approval by the Board of Governors' Registered Pension Plan Investments Subcommittee, Finance & Investment Committee and Pension & Benefits Committee, in accordance with their mandates. It was expected that the recommendations of the RIWG will be reflected in the statements of investment policies and procedures for the endowment and pension funds as may be appropriate. It should be noted that because the Registered Pension Plan Investments Subcommittee encountered difficulty in populating its membership, for the purposes of the working group's reporting only the Finance & Investment Committee and the Pension & Benefits Committee were consulted during the process.

Membership

A membership listing is included as an appendix to this report.

Investments

An overview of the University's various investments to which the group's work pertains is provided.

Name	Fixed Income	Equities	Other Asset Categories	Total for Fund/Plan
Endowment Fund	\$163,200	\$204,100	\$19,500	\$386,800
IQC Trust Fund	\$53,300	\$30,000	--	\$83,300
Payroll Pension Plan	\$16,700	\$25,100	--	\$41,800
Registered Pension Plan	\$803,900	\$686,600	\$187,100	\$1,677,600
Total	\$1,037,100	\$945,800	\$206,600	
			Grand Total	\$2,189,500

All values are in \$000's as of 31 December 2017

Portion of Grand Total held as direct investments = 9.4% (two holdings) (\$207 million)

Portion of Grand Total invested through investment managers or indexed holdings = 90.6% (\$1,983 million)

Process Undertaken

The RIWG completed the following in order to fulfill its mandate:

- Analyzed exposure to fossil fuels, tobacco and oil sands within the University's portfolio;
- Inventoried ESG approaches of the University's current investment managers;
- Consulted with the University's pension advisor (Aon Hewitt) and had them present to the RIWG the different approaches to ESG in the market, other "responsible investing" approaches that have been adopted by asset owners, and overall trends in ESG and responsible investing as well as limitations and practical considerations for ESG or similar approaches (e.g. target rates of return of CPI + 3.5% to ensure the health of the pension plan on a going-concern basis);
- Obtained information on a variety of approaches that differ from ESG: negative or exclusionary screening; best-in-class screening; ownership of assets paired with engagement to effect change; impact investing; divestment;
- Consulted with two additional investment managers on ESG approaches and trends including one manager whom the University currently employs to manage its assets (Philips, Hager & North) and one manager without any current investment management relationship to the University (Manulife Asset Management), with the aim of seeking a diversity of views from managers active in the space;
- Conducted an environmental scan of the ESG approaches adopted by a sample of similar universities and major pension funds, within Canada, the United States, and internationally;
- Reviewed requests previously brought forward regarding divestment of fossil fuel investments;
- Examined numerous case studies that are seen to be significant in this space and which inform the views of pension advisors and investment managers;
- Reviewed a considerable volume of literature, including academic publications, books and other publications;
- Reviewed results of an exercise carried out by Advancement to solicit the views of targeted key endowment donors and alumni, on ESG factors; and
- Solicited input from current pensioners, using the list of the University of Waterloo Retirees Association; the constituency of current and future pensioners represents the single largest stakeholder group of the University's investment assets.

Community Engagement

The RIWG, in carrying out its mandate, deliberately engaged a broad range of interested constituencies in an open, transparent manner to provide significant opportunities for input from multiple sources and perspectives. These included students, faculty, staff, alumni, retirees, and donors. This approach aimed to ensure that the fullest possible array of perspectives from the University community would be considered. These activities included:

- Issuing two notices to the entire University community, on 5 May 2017 and 5 October 2017, to communicate the mandate of the RIWG and solicit feedback on this mandate. The two separate notices reflected and accommodated the rollover that occurs in the University community during the fall term
 - As a result of the notices, the RIWG received considerable feedback (~ 80 comments from individuals and groups on campus)
 - The RIWG also has received a considerable volume of written material above and beyond commentary on responsible investing and ESG factors, including academic publications, book chapters and other such material
- Holding direct meetings of a subgroup of the RIWG with representatives of two separate groups who had provided written submissions – faculty in support of fossil fuel divestment, and students supporting fossil fuel divestment
- Providing periodic progress updates to the Board as well as the Finance & Investment Committee and the Pension & Benefits Committee
- Issuing to the community a compilation of comments, material and input received up to January 2018

Discussion of RIWG Observations

As a result of the group's environmental scan, direct outreach and extensive consultation, the RIWG has reviewed and deliberated on a considerable volume of written material and community input. The RIWG is of the view that the material considered represents a comprehensive review of ESG considerations, at the same time understanding that ESG considerations are evolving in real time.

A number of findings are worth highlighting here:

1. The University must consider the interests of multiple stakeholders: students, faculty, staff, current and future pensioners, alumni, donors, taxpayers, senior levels of government, each of whom may have different interests in the short term and the long term.
2. Fiduciary duty is the single largest and most important driver that the Board should consider in assessing whether or not to include ESG factors into investment decisions, given the magnitude of University responsibility for pension plan and endowment assets. This observation has been consistently at the forefront as the RIWG acted to fulfill its mandate. There would be considerable negative impact upon the University community, and pensioners particularly, if the pension and endowment funds do not achieve performance requirements to meet the commitments that have been made. The Board has fiduciary obligations under common law and pension regulation which include duties of care, loyalty to the interests of beneficiaries, and obedience to the purposes of the funds which are paramount. The inclusion of ESG factors in the investment process is not inconsistent with fiduciary obligations, and most likely supports the execution of those duties. Other universities in Canada also recognize this and have stated so publicly.
3. Responsible investing involves integrating ESG into the investment process. In addition to using ESG to consider investment opportunities, asset owners and investment managers can also use ESG-focused proxy voting and shareholder engagement with portfolio companies.
4. The rate of adoption of ESG factors in investment decision making is increasing for investment managers and asset owners of all types including investment managers, institutional investors and universities.

5. ESG is a fundamentally useful lens for review of investments as well as for monitoring and managing current and prospective investment managers, and can be applied in support of conventional investment analysis to gauge potential rates of return and the risk of asset or capital impairment, and is not inconsistent with fiduciary obligations and most likely supports these duties.
6. The incorporation of ESG factors into investment decision should not compromise returns, and supports better risk management while promoting sustainable long-term investment returns.
7. The University largely utilizes investment managers to manage its investments, and thus the University will have to ensure these managers adopt ESG into their investment decision-making process and provide ongoing reporting to the University.
8. At the time of this writing, we are not aware of a clear direction in either Canadian or provincial law regarding whether or not to include ESG considerations in investment decisions. There currently is no legislation mandating the inclusion of ESG factors as an investment consideration, but there is a requirement for disclosure
9. In the process of fulfilling its mandate, the RIWG considered and rejected the notion of differential treatment of funds/investments e.g. endowment investments can differentially incorporate ESG in comparison to pension investments. It is felt that the same lens ought to be applied to all investments.
10. As part of the consultation process undertaken by the RIWG, the working group notes that a significant amount of feedback received from the community encouraged the University to divest from fossil fuel investments. The RIWG is also aware of the requests received by the Board in 2016 which encouraged fossil fuel divestment, and that similar divestment proposals have been put forward at universities and other institutions in Canada and worldwide, with widely-varying institutional responses which have included: resolution to implement a divestment policy for some or all of the investments in question; declining to divest but implementation of an ESG policy; preference given to approaches where an institution's investment policy would skew toward certain assets that match institutional values.

Regulators have expressed concern when divestment is considered purely for ethical reasons, which could be considered "ethical screens":

"... An administrator should be cautious to ensure that its approach to incorporating ESG factors does not conflict with its fiduciary duties, as may be the case with the use of ethical screens. The best interests of plan beneficiaries has traditionally been defined by the courts in terms of the beneficiaries' financial interests, with the result that there is a potential conflict with investing with other goals in mind, such as ethical or moral considerations. If the administrator is considering such an approach, the administrator is encouraged to consult with its legal counsel on this issue."¹

The RIWG observes that the University should view any request for divestment cautiously where divestment serves as a form of ethical screening, rather than due to other factors related to risk adjusted rates of return.

The RIWG takes note of the older example of the movement to divest from South African companies in the 1980's and 1990's, and particularly the passage of provincial legislation in the form of the *South African Trust Investments Act* in 1990². While this occurred some time ago, this legislation provided clarity to Ontario institutions proceeding that a prospective divestment would not be offside in the view of the most relevant authority. No similar such legislation exists with respect to fossil fuel divestment. This provide some precedent where little exists.

¹ Financial Services Commission of Ontario, Investment Guidance Note IGN-004 (https://www.fSCO.gov.on.ca/en/pensions/fSCO_consultations/Documents/IGN004.pdf)

² South African Trust Investments Act, R.S.O. 1990, c. S.16 (<https://www.ontario.ca/laws/statute/90s16>)

Additionally, the RIWG recognizes that sectoral divestment does not consider the heterogeneity of companies that may operate within a given sector. The broadness of sectoral definitions does not differentiate between companies that may be focused on investing in innovative new technologies, as one example. Given this understanding, sectoral divestment of fossil fuels or any other sector is currently seen to be neither intrinsically effective nor advantageous.

Further, the RIWG notes that comparator Canadian institutions have generally not supported a divestment approach.

This area continues to evolve and the university will continue to monitor initiatives, actions and movements as they unfold. However, in consideration of the reasons outlined above together with the weight of fiduciary duty borne by the University, we do not support the suggestion of divestment from fossil fuel investments at this time.

Recommendations

With there currently being no accounting for ESG factors in the University's investment decision-making, the RIWG recognizes the importance of establishing a foundation in this space with an eye to potential expansion of activity at a future date. The most important steps that the University can take presently are those that establish a framework to integrate ESG into the regular activity of investment decision-making and to make the commitment to the principles of responsible investing.

The RIWG recommends the following to the Board of Governors:

- i. That the Board of Governors formally adopt and incorporate ESG considerations as part the selection criteria for investment managers, and as part of the investment considerations for directly-held investments.

Rationale: Adoption of ESG considerations is increasingly occurring within the sector, and the RIWG observes that the consensus view that ESG is a valid and important lens for investment decision-making. The RIWG is aware that adoption of ESG considerations does not place the University at the forefront of this emerging space and that this recommendation does not place the University at the forefront of innovation. Nevertheless, the RIWG affirms that adoption of ESG factors constitutes an important incremental improvement which enables the potential to advance our position at a future date. For the purposes of this recommendation, ESG factors refer to the environmental, social and governance factors relevant to an investment that may have a financial impact on that investment.

- ii. That the Board of Governors adopt the following principles and guidelines for the meaningful and robust application of ESG principles to University investments:

Guiding Principles

1. The University's approach to investing its assets to support its programs and people must be appropriate for an institution of its stature and calibre. Furthermore it must recognize that its actions will be scrutinized by others and may also carry significant influence in how other institutions approach their investing strategies as it relates to ESG and responsible investing.
2. The University recognizes ESG as an important lens to identify opportunities and risks to the University's investments.
3. The subject of ESG is continuing to evolve in real time. As a leading and innovative University, we commit to reviewing on an annual basis and recommending revisions as appropriate to ensure the University's practices are consistent with best practices for comparable institutions.
4. Waterloo shall utilize ESG as a tool in service of responsibly stewarding its assets, and investment decisions shall be made based on an investment thesis that includes consideration of ESG factors as part of the thesis.

5. ESG factors shall be applied equally across all investment funds, and normally no provision will be made for any differential treatment for a given fund or account within a fund.

Guidelines for the Application of ESG Principles to University Investments

1. ESG factors refer to the environmental, social and governance factors that may have a financial impact on investment.
2. The University bears fiduciary responsibility as the sponsor of the University's pension plans, as well as responsibility for the effective stewardship of funds within the University's endowment, and affirms that ESG factors are important to serving these overarching responsibilities. The University sees no requirement to lower the performance expectations of a given investment or investment manager as a result of the incorporation of ESG factors in investment decisions.
3. The University recognizes that ESG factors and market practices related to ESG are dynamic and may change from time to time. Consequently, ESG factors, trends, and practices shall be monitored and formally assessed on an annual basis through an appropriate mechanism as approved by the Board. The University may retain outside consultants and experts on the subjects of ESG and responsible investing.
4. The University acknowledges that the application of ESG factors to investment decision-making must take into consideration practical factors including, but not limited to:
 - a. Differing potential for impactful action between direct investment holdings vs. investments managed by professional investment managers with discretion over the purchase and sale of assets (e.g. pooled funds, indexed funds).
 - b. Differing levels of disclosure and transparency of information for assets based on factors that include: fixed income, equity, and indexed investment products; publicly-traded companies vs. privately-held companies, and requirements in different geographic domiciles.
5. The University acknowledges that analysis of ESG factors by an investment manager retained by the University is an important consideration in the manager's determination of the viability of a given investment in facets including, but not limited to: sustainability of a given business; viability and robustness of a business model; potential for societal rejection of a given company or sector; potential for beneficial or detrimental impact on assets, including either or both of tangible and intangible assets. The University affirms that monitoring of current and future investment managers is an important activity and this includes, but is not limited to, the following: review of managers' proactive disclosures, analysis of how ESG factors are considered by the managers, third party reporting on managers' ESG activity, monitoring adherence to UN PRI principles (if the manager is a signatory), and records of proxy voting by managers. Investment managers and commingled investment vehicles will be evaluated on their ESG capabilities and performance. Where possible, the ESG capabilities and performance will be included into the University's investment selection and monitoring processes.
6. The University shall incorporate a thoughtful analysis of ESG factors into its decision-making for the evaluation of direct investments, including for new direct investments, for increases/reductions to existing investments, and for removal of investment in a given direct investment. In carrying out analysis for ESG factors, the University may utilize the services of any consultant or resource that is deemed to be authoritative in these matters.
7. Responsibility for the execution and monitoring of investments impacted by these guidelines shall reside with the Board, and the Board may delegate this responsibility within its sole discretion to any of its committees or the staff of the University.

Rationale: These guiding principles and guidelines serve to codify the University's understanding of ESG considerations in a broad way, while allowing interpretation in their application. The RIWG expects that ESG will evolve over time and with that evolution these points of guidance may also be amended from time to time based on the most current understanding of ESG, providing a flexible framework to help guide the application of these considerations.

- iii. That the Board of Governors revise ESG-specific language in the Statement of Investment Policies and Procedures (SIPP) for the University of Waterloo Pension Plan and for the Statement of Investment Guidelines of the University of Waterloo Endowment Fund to reflect the substance of the above guidelines and principles as appropriate.
Draft language is provided for consideration, and it is recommended that the University consult with experts in this area (e.g., the pension consultant) before any action is taken:

Environmental, Social and Governance (“ESG”) Factors

Consistent with its obligation to act in the best interest of the Plan, UW chooses investments and investment managers that it believes will deliver superior financial performance over the longer term. In this regard, UW considers ESG factors in selecting investment managers with whom it invests the assets of the Plan as well as assets that are directly held by the UW. UW recognizes, however, that managers may consider ESG factors in different ways in assessing whether a given investment will have the best economic outcome. In order to protect and enhance the value of the Plan’s investments, when selecting investment managers or direct investments, UW considers criteria that include: the managers’ business and staff; historical performance; and the consideration of ESG factors in the investment process. As well, ESG factors, including, but not limited, to the proactive disclosure and analysis of ESG factors by the investment manager will be considered in the monitoring of, and ongoing decisions pertaining to, the retention of investment managers. For the purposes of this section, ESG factors refer to the environmental, social and governance factors relevant to an investment that may have a financial impact on that investment, and it is understood that the understanding of and impact from ESG factors may change over time.

Rationale: Adoption of affirmative language for ESG considerations within the SIPP and the investment guidelines is the most powerful action that can be taken by the University to demonstrate that ESG considerations will be integrated into decisions and to convey this commitment outwardly.

- iv. That the Board of Governors direct staff to prepare a report on the requirements for the University to become a signatory to the United Nations Principles for Responsible Investment (UN PRI), with the aim of joining with other signatories in implementing the six principles for responsible investing and outlining costs, monitoring and reporting requirements with the objective of becoming a signatory in good standing on a 12 month timeline:

UN Principles for Responsible Investment

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

Rationale: The RIWG views the adoption of the principles of the UN PRI as an important step in conveying the commitment of the University to an initiative that has been embraced by more than 1700 institutions representing \$62 trillion in assets under management (2017 figures), and which is recognized by institutions and investment managers internationally. The RIWG notes that rather than recommending the University immediately become a signatory, it is clear that the implications and obligations of doing so need to be understood fully before embarking on this action to mitigate any reputational risk from inadvertent non-compliance. The plan should include details on the necessary commitments related to reporting and monitoring, as well as prospective costs (both financial and staff time/resources).

- v. That the Board of Governors should explore and evaluate potential social impact investments with the aim to launch a pilot investment in one year’s time.

Rationale: It is understood that there exists a continuum of options in this space, which could offer an acceptable risk-adjusted rate of return along with the opportunity to generate positive social impact. The

RIWG is of the belief that this area provides sufficient opportunity to merit consideration, and potential investment in this space may become very attractive to the University as time progresses.

- vi. That the Board of Governors resolve to review progress on the implementation of ESG factors annually.

Action Plan

The RIWG is aware of, and sensitive to, the considerable amount of work that the recommendations entail. The following actions will subsequently be required with the adoption of the recommendations, and suggested timelines are provided:

1. Amendment of SIPP and investment guidelines, as appropriate (staff to bring forward in consultation with pension consultant Aon Hewitt, October 2018).
2. Allocation by the Board of Governors of responsibility for making ESG decisions for each of the identified groups of investment holdings (staff to bring forward recommendation, October 2018).
3. Staff to develop a plan to become a signatory on the UN PRI, complete with details on the initial and ongoing resource obligations attendant to this commitment (June 2019).
4. Development of processes, including joining relevant industry associations such as the Responsible Investment Association, to ensure the University remains apprised of trends and concepts in the ESG space into the future, as well as the impact of ESG considerations on fiduciary duty (staff to bring forward recommendation, target of June 2019).
5. Development of processes to integrate ESG factors into the selection of investment managers and/or directly-held investments, and regular monitoring of ESG in investment holdings and managers, with the understanding that external third-party services would interface with staff to support monitoring for ESG within the University governance structure (staff to bring forward recommendation, target of June 2019).
6. Development of a transparent reporting process for ESG monitoring (staff to bring forward recommendation, target of June 2019).
7. Review of progress in the implementation of ESG annually (Board, first review June 2019).
8. Clear communication to the community on the adoption of ESG is important, and it is the view of the RIWG that the adoption of these recommendations forms the beginning of responsible investment that the University can build upon over time.

Appendix

1. RIWG Membership

Per the terms of reference, the working group's membership was established as follows:

10 of 12 members will be financially literate and have knowledge of investments generally. A majority of members will have knowledge of the University's investment funds.

- Three members of the Board of Governors or its finance and/or pension committees, other than University employee or student members
- Six members of either the Board of Governors or its pension committee, as follows:
 - One faculty member to be nominated by the FAUW executive;
 - One staff member to be nominated by the UWSA executive;
 - One CUPE member to be nominated by the executive of CUPE Local 793 (The member of the Pension & Benefits Committee who is a representative of CUPE Local 793);
 - One undergraduate student to be nominated by the FEDS executive;
 - One graduate student to be nominated by the GSA executive; and
 - One retiree to be nominated by the executive of the Retirees' Association (the member of the Pension & Benefits Committee who is a representative of retirees).
- Vice-President, Administration & Finance
- Vice-President, Advancement
- Vice-President, Academic & Provost, or delegate

The Vice-President, Academic & Provost or delegate will serve as Chair. The Chair may vote, if necessary, in order to break a tie.

Member Name	Constituency/position
Bruce Gordon	Chair – delegate of the Vice-President, Academic & Provost
Alan Macnaughton	Representative – Faculty (P&B)
Ted Bleaney	Representative – Staff (P&B)
Stewart Forrest	Representative – CUPE Local 793 (P&B)
Mary Thompson	Representative – Retirees' Association (P&B)
Robert Bruce	Board Member – Graduate Student (BOG)
Andrew Clubine	Board Member – Undergraduate Student (BOG)
Upkar Arora	Three members of the Board of Governors or its finance and/or pension committees, other than University employee or student members
John Liddy	
John Lounds	
Dennis Huber	Vice-President, Administration & Finance
Joanne Shoveller	Vice-President, Advancement
Former members	Constituency/position
Christine Wagner (to April 2017)	Representative – Staff (P&B)
Ramesh Kumar (to April 2017)	Representative – Retirees' Association (P&B)
Christopher Pugh (to July 2017)	Board Member – Graduate Student (BOG)

2. Short List of Selected Definitions of Investment Concepts Related to ESG and Responsible Investing

Active Ownership – is when investors utilize their ownership to vote on and engage corporate managers and boards of directors to address concerns of environmental, social and corporate governance (ESG) issues. Active ownership is utilized to address business strategy and decisions made by the corporation in an effort to reduce risk and enhance sustainable long-term shareholder value.

Divestment – when investments are sold from a portfolio because they no longer meet the ESG or other criteria.

Environment, Social and Governance (ESG) – beyond the traditional financial factors, the evaluation of environmental, social, and corporate governance (ESG) factors can provide insights into investment risk, and there is growing evidence that suggests that ESG factors when integrated into investment analysis and decision-making may offer investors potential long-term performance advantages. ESG has become shorthand for investment methodologies that embrace ESG or sustainability factors as a means of helping to identify companies with superior business models.

Fiduciary Duty/Responsibility – in the institutional investment context, trustees of pension funds owe fiduciary duties to beneficiaries to exercise reasonable care, skill and caution in pursuing an overall investment strategy suitable to the purpose of the trust and to act prudently and for a proper purpose.

Negative / Exclusionary Screening – in searching the universe of prospective investments, exclusion of companies from the investible universe when said companies are poorly-rated on ESG or other criteria

Responsible Investing - Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.³

3. Benefits Canada “Two-thirds of institutional investors use ESG analysis”

<http://www.benefitscanada.com/news/two-thirds-of-institutional-investors-use-esg-analysis-105698>

³ <https://www.unpri.org/pri/what-is-responsible-investment>