

**University of Waterloo**  
**Carbon-Neutral Investment Policy**  
**Draft Report**

Proposal Drafted by Fossil Free UW

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## Executive Summary

Based on a partial disclosure of information from the University of Waterloo’s Administration on September 30, 2019, we know that at least \$62 million of the university’s equity holdings are in the energy sector, which incorporates fossil fuel companies, pipeline companies, and companies that are indirectly involved in the fossil fuel sector development. Approximately half of these holdings are invested in Carbon Underground 200 listed companies, including Exxon/Imperial Oil, CNOOC, and Suncor, which are not only known heavy CO<sub>2</sub> emitters, but some of which have participated in decades-long climate-denial campaigns. Moreover, some of these companies are responsible for environmental destruction on a massive scale, human rights violations, and corrupt practices. There are obvious environmental and ethical reasons why our University, the Canadian lead for the United Nations’ Sustainable Development Solutions Network, should not be investing in these firms.

Universities around the world are divesting fossil fuels. In Canada, Laval University, the Université du Québec à Montréal, Concordia have committed to divestment. The University of British Columbia’s Board of Governors unanimously resolved to divest its endowment fund from fossil fuels in December 2019. In March 2020, University Queen's University's Board of Trustees voted to begin reducing the carbon intensity of its endowment fund investments, while in May, the University of Guelph committed to divestment to enact its commitment to sustainability. Canada’s most innovative university should not be left behind.

While the ethical imperative is clear, so is the economic case for divestment. The landscape shifts daily, with the recent announcements by BlackRock and the European Investment Bank committing to divest many of their fossil fuel holdings. Mark Carney, outgoing Governor of the Bank of England and former Governor of the Bank of Canada, recently emphasized that up to half of the world’s oil and gas reserves and most of its coal reserves stand to become stranded assets – “worthless” investments. PhD candidate Truzaar Dordi’s analysis found that conservative estimates show that from 2011 to 2015 the University of Waterloo realized losses of upward of 14% on fossil fuel investments made in pension, endowment and trust funds, totalling at least \$20 million, by investing in fossil fuels as compared to investing in low carbon options. As Dordi notes, “Some may argue that the University should maintain its fossil fuel investments lest it lose out. However, the opposite concern – that keeping these investments is financially risky – may be the greater issue.”

The University of Waterloo currently considers Environmental, Social, and Governance (ESG) in its investment decisions and signed on to the United Nations Principles for Responsible Investment (UN PRI), which recognizes climate change as the highest priority of all ESG issues. Despite this commitment, the University of Waterloo is stuck in a regressive financial position by continuing to invest in fossil fuels and associated industries.

Yet, experts in sustainable management now recommend that it is not only energy holdings that are exposed because of climate change. Investments in industries that might be exposed to stranded asset risks, e.g. floods, fires, droughts, resource degradation, are also exposed through cascading effects. These include transport, utilities, agriculture, real estate, and water assets. Given climate-induced, global environmental and economic transformation, simply divesting fossil fuel holdings is not sufficient to make the University's Investment Fund resilient. As such, this Investment Policy draft report outlines some of the latest evidence as to why and how the University of Waterloo should be moving toward a carbon-neutral portfolio.

We outline investment objectives and clarify why this decision is legally acceptable and financially prudent. Concerns about fiduciary duty are addressed and considered resolved, as witnessed with the actions of other Ontario universities. The importance of maintaining diversity of the portfolio is also explored – as is the broad impact climate change will have on a diverse set of industries. Climate risk extends beyond the fossil fuel sector and must be considered, as must the influence of social pressure on investments. We do not propose that the University should divest from all holdings in climate affected industries, rather we offer a holistic approach to divestment would include climate risk, associated with consideration of carbon-related stranding of assets.

Given the financial evidence, the ethical imperative to act on climate change, and the University's commitment to the UN PRI, we recommend that the Board of Governors adopt a stepwise approach to achieve a carbon-neutral Investment Fund to improve security and increase returns. The five steps to carbon-neutrality, 1. Adopt Fossil Free Indexes (already complete); 2. Prove the Case; 3. Full Divestment of Carbon Underground 200 (with consideration of fossil fuel-associated industries); 4. Understand Stranded Asset Risk; 5. Achieve a Carbon Neutral Portfolio, are then described. While we do not offer a timeline for the process, we do caution that the longer the transition takes the more the University of Waterloo stands to lose.

## PREAMBLE

Based on a partial disclosure of information from the UW Administration on September 30, 2019, we know that at least \$62 million of the university’s investments are in the energy sector,<sup>1</sup> which incorporates fossil fuel companies, pipeline companies, companies that are indirectly involved in the fossil fuel sector development. These investments include \$20.3 million from the student endowment fund. Of the energy investments, \$32.8 million are in the top 200 global fossil fuel companies, with \$24.6 million in tar sands companies<sup>2</sup> (with some overlap). These fossil fuel companies include Exxon/Imperial Oil, CNOOC, and Suncor, which are not only known heavy CO<sub>2</sub> emitters, but some of which have participated in decades-long climate-denial campaigns.<sup>3</sup> Moreover, some of these companies are responsible for environmental destruction on a massive scale,<sup>4</sup> human rights violations,<sup>5</sup> and corrupt practices.<sup>6</sup> There are obvious environmental and ethical reasons why our University, the Canadian lead for the United Nations’ Sustainable Development Solutions Network, should not be investing in these firms.

The economic case for divestment is also very strong. Mark Carney, outgoing Governor of the Bank of England and former Governor of the Bank of Canada, recently emphasized that up to half of the world’s oil and gas reserves and most of its coal reserves stand to become stranded assets—“worthless” investments.<sup>7</sup> Canadian economist, Jeff Rubin, for instance, says: “While a lack of disclosure of carbon holdings makes it difficult to assess fund-specific losses, one study estimated that the five largest funds in Ontario lost somewhere in the neighbourhood of

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<sup>1</sup> University of Waterloo, 2019, <http://mathnews.uwaterloo.ca/wp-content/uploads/2020/02/Energy-Exposure-Report-as-at-Q3.pdf>

<sup>2</sup> University of Waterloo, <http://mathnews.uwaterloo.ca/wp-content/uploads/2020/02/FOI-Data.pdf>

<sup>3</sup> Hussain, 2020, <https://theintercept.com/2020/01/08/imperial-oil-climate-change-exxon/>

<sup>4</sup> Berman, 2017, <https://www.theguardian.com/commentisfree/2017/nov/14/canadas-shameful-environmental-secret-tar-sands-tailings-ponds>

<sup>5</sup> Asia News, 2007, <http://www.asianews.it/news-en/Gas-and-oil-from-Africa-and-the-Middle-East-will-pass-through-Myanmar-9167.html>

<sup>6</sup> Offshore Energy Today, 2014, <https://www.offshoreenergytoday.com/cnoocs-executive-suspected-of-bribery/>

<sup>7</sup> Bank of England, 2020, <https://www.bankofengland.co.uk/speech/2015/breaking-the-tragedy-of-the-horizon-climate-change-and-financial-stability>

CDN\$2.4 billion on their stock holdings of fossil fuel companies over the second half of 2014.”<sup>8p.9</sup> PhD candidate Truzaar Dordi’s analysis found that conservative estimates show that from 2011 to 2015 the University of Waterloo has realized losses of upward of 14% on fossil fuel investments made in pension, endowment and trust funds, totalling at least \$20 million, by investing in fossil fuels as compared to investing in low carbon options.<sup>9</sup> As Dordi notes, “Some may argue that the University should maintain its fossil fuel investments lest it lose out. However, the opposite concern – that keeping these investments is financially risky – may be the greater issue.”

Our university is not alone in suffering losses by continuing to invest in fossil fuels. Corporate Knight’s decarbonizer tool finds trillions in lost opportunity, perhaps most notably the Bill and Melinda Gates Foundation, which after rejecting calls to divest from fossil fuels, lost \$1.9 billion between 2012 and 2015.<sup>10</sup> Markets have already begun to respond to the riskiness of fossil fuel investment—fossil fuels are becoming devalued. We can assume this will intensify as governments and industries make further progress in reducing emission to meet the internationally accepted 1.5 degree warming limit of the IPCC. Indeed, we see the landscape shift daily, with the recent announcements by BlackRock, the European Investment Bank, and the University of California serving as dramatic examples. Canada’s most innovative university should not be left behind.

Universities around the world are committing to divest. Half of the universities in the UK have committed to divest and divestment is spreading rapidly across US campuses: last year, the University of California system ended its fossil fuel investments citing financial risk, while Harvard University faculty voted overwhelmingly for divestment. Canadian universities have begun to follow suit. Inspired by actions in Québec at Laval University, the Université du Québec à Montréal, and Concordia, the University of British Columbia’s Board of Governors unanimously resolving to act immediately to divest its endowment fund from fossil fuels in December 2019. In March 2020, University Queen's University's Board of Trustees voted to

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<sup>8</sup> Rubin, 2017, p. 9, <https://www.cigionline.org/multimedia/case-divesting-fossil-fuels-canada>

<sup>9</sup> Dordi, 2017, <https://fossilfreeuw.ca/uw-investments/uw-potential-losses/>

<sup>10</sup> Carrington, 2015, <https://www.theguardian.com/environment/2015/nov/16/gates-foundation-divested-fossil-fuels-would-be-19bn-better-off>

begin reducing the carbon intensity of its endowment fund investments, while in May, the University of Guelph committed to divestment to enact its commitment to sustainability. This followed on, a decision. Canada’s most innovative university should not be left behind.

We understand that the University of Waterloo currently considers Environmental, Social, and Governance (ESG) in its investment decisions. ESG are the three key factors when measuring the sustainability and ethical impact of an investment in a business or company. ESG is used to screen investments to improve the holistic sustainability of a portfolio. Through its commitment to ESG, the University has signed on to the United Nations Principles for Responsible Investment (UN PRI) which recognizes climate change as the highest priority of all ESG issues. We have subsequently observed the University begin to reduce its carbon exposure, down from 2017, when \$68 million were invested in Carbon Underground 200 companies.<sup>11</sup> (Investments in associated industries, such as pipelines, were not disclosed at the time.) However, a significant \$62 million remains in fossil fuel holdings and associated industries, with approximately half of investments, \$32,777,000,<sup>12</sup> in Carbon Underground 200 listed companies.<sup>13</sup> The remainder of the energy holdings are invested in fossil fuel associated industries.

We, however, recognize that it is not only these holdings that are at risk from climate change. Investments in industries that might be exposed to stranded asset risks, e.g. floods, fires, droughts, resource degradation are also exposed through cascading effects. These include transport,<sup>14</sup> utilities,<sup>15</sup> agriculture,<sup>16</sup> real estate,<sup>17</sup> and water assets, including aquaculture.<sup>18</sup> Given climate-induced, global environmental and economic transformation, simply divesting fossil fuel

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<sup>11</sup> Fossil Free UW, 2017, <https://fossilfreeuw.ca/uw-investments/>

<sup>12</sup> Macri, 2020, <http://mathnews.uwaterloo.ca/wp-content/uploads/2020/02/mathNEWS-142-4.pdf>

<sup>13</sup> The Carbon Underground 200 report identifies the top 100 public coal companies globally and the top 100 public oil and gas companies globally, ranked by the potential carbon emissions content of their reported reserves.

<sup>14</sup> Traut et al., 2018, CO<sub>2</sub> abatement goals for international shipping

<sup>15</sup> Hunt and Weber, 2018, Fossil Fuel Divestment Strategies: Financial and Carbon-Related Consequences.

<sup>16</sup> Marsden et al., 2019, Reproducing vulnerabilities in agri-food systems: Tracing the links between governance, financialization, and vulnerability in Europe post 2007–2008; Morel et al., 2016, Stranded Assets in Palm Oil Production: A Case Study of Indonesia About the Sustainable Finance Programme; Rautner et al., 2016, Managing the Risk of Stranded Assets in Agriculture and Forestry.

<sup>17</sup> Muldoon-Smith & Greenhalgh, 2019, Suspect foundations: Developing an understanding of climate-related stranded assets in the global real estate sector

<sup>18</sup> Lamb, 2015, *Drying and Drowning Assets – How Worsening Water Security Is Stranding Assets.*

holdings is not sufficient to make resilient the University’s Investment Fund. Carbon neutrality is required.

Given the financial evidence, the ethical imperative to act on climate change, and the University’s commitment to the UN PRI, we recommend that the Board of Governors adopt a stepwise approach to achieve a carbon neutral Investment Fund, which includes the Registered Pension Plan, the Endowment, the Special Purpose Trust, and the Operating fund:

1. Adopt Fossil Free Indexes.
2. Prove the Case.
3. Full Divestment of Carbon Underground 200 holdings.
4. Understand Stranded Asset Risk.
5. Achieve a Carbon Neutral Portfolio.

# **STATEMENT OF INVESTMENT POLICIES AND PROCEDURES**

# 1. Priority Of Investment Objectives: Terminology Regarding Structure of Portfolio & Asset Classes

## Diversification

For the sake of preventing exposure to singular crashes or events in a single industry or company, it is important to ensure an investment portfolio is well diversified across sectors and asset classes, as well as through different asset classes. A well-balanced investment portfolio should, therefore, be distributed across equity (shares, stocks, ETFs), debts (pooled debts financing), and cash assets. It is further important to consider diversification across industry classes to prevent excessive exposure to the risks and vulnerabilities of single industries.

As we make the case for divesting fossil fuel holdings and moving to a carbon neutral portfolio, ensuring that the new portfolio remains well diversified is imperative. It is further important to recognize that divestment in the case of fossil fuel holdings actually reduces risk and improves investment returns, both now and into the future given the threat of stranded assets. Trinks et al. demonstrates that had one divested fossil fuel holdings as far back as the 1930s, the fossil free portfolio would have overperformed that portfolio holding fossil fuels,<sup>19</sup> while universities that have divested are seeing the benefit, like Syracuse, which has seen its funds gain by 12%.<sup>20</sup> In 2015, Canadian research company Corporate Knights did a study on 14 major funds with \$1 trillion USD in assets and found that over \$22 billion was lost by not moving away from fossil fuels,<sup>21</sup> while from 2010 to 2015 the coal industry lost 76 % of its value.<sup>22</sup> Under performing industries should not be retained simply for diversification.

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<sup>19</sup> Trinks, A.; Scholtens, B.; Mulder, M.; Dam, L. Fossil Fuel Divestment and Portfolio Performance.

<sup>20</sup> Sadler, 2017, <http://dailyorange.com/2017/09/divestment-fossil-fuels-not-caused-syracuse-universitys-endowment-suffer-official-says/>

<sup>21</sup> Heaps, 2015, <https://www.corporateknights.com/channels/responsible-investing/fossil-fuel-investments-cost-major-funds-billions-14476536/>

<sup>22</sup> Mathisen, 2015, <https://www.theguardian.com/environment/2015/mar/24/us-coal-sector-in-terminal-decline-financial-analysts-say>

## **Fiduciary Duty**

According to the Ontario law, enshrined in the Ontario Trustee Act, trustees are required to put the financial interests of their beneficiaries at the forefront of all decisions.<sup>23</sup> The direct beneficiaries of the University of Waterloo's Investment Fund are its faculty, staff, and students. While the climate crisis, which the carbon intensive fossil fuel industry plays a significant role in causing, is being felt by all today, it will be experienced most significantly by current and future students. Further, for faculty and staff who depend on the pension fund for retirement savings, divesting upholds the fiduciary duty to act in their best interest over the long-term. This is of particular concern, given that Canadian funds are acutely susceptible to the stranding of assets due to their oil sands exposure. (Currently, 99.85% of the University's Energy Sector holdings are in companies that work predominately in the Alberta oil sands and have been recently hard hit by Russia/OPEC disagreements and COVID-19. Between September 30<sup>th</sup>, 2019 and March 31<sup>st</sup>, 2020, value of the University's energy holdings dropped from \$62 million to \$41 million.)

Investments in carbon heavy holdings may be breaching the fund's fiduciary duty by favouring short-term interests over those who will draw on this fund for their retirement income.<sup>24</sup> The University of Waterloo's Investment Fund must continue to be sustainable over the long term, and the best interests of the beneficiaries should be evaluated over such a timeframe, rather than by the short-term return of possible competing investments. As such, we are already seeing academic institutions worldwide, including over half of the universities in the United Kingdom, committing to divestment and have done so in line with their fiduciary duty to their beneficiaries.<sup>25</sup> Canadian academic institutions, even here in Ontario, have also begun to follow suit, finding that divestment is in line with fiduciary duty.

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<sup>23</sup> Rotman, L. I. (2017). Understanding Fiduciary Duties and Relationship Fiduciarity..

<sup>24</sup> Yunker, Z., Dempsey, J., & Rowe, J. (2018) Canada's Fossil-Fuelled Pensions The Case of the British Columbia Investment Management Corporation. Canadian Centre for Policy Alternatives. Retrieved from <https://www.policyalternatives.ca/sites/default/files/uploads/publications/BC%20Office/2018/06/CCPA-BC%20BCI%20FINAL.pdf>

<sup>25</sup> Taylor, M. (2020). Half of UK universities have committed to divest from fossil fuel. Retrieved 25 May 2020, from <https://www.theguardian.com/environment/2020/jan/13/half-of-uk-universities-have-committed-to-divest-from-fossil-fuel>.

## Equity Investing

Equity investing refers to the holding of shares issued by a company. Equity ownership allows shareholders to vote on strategic decisions of the firm, given their degree of ownership.

Large shareholders thus influence corporate governance through, for example, shareholder-sponsored proposals and shareholder voting. Institutions have used this reasoning as an argument against divestment, reporting that they can make better change inside the organization. Another common argument for this position is that one is not able to influence corporate governance if one does not have ownership in the company. However, those with significant ownership often favour continued business as usual, fail to act even in the face of scientific evidence, and may even contribute to the spread of disinformation in efforts to protect their companies. “The five largest publicly-traded oil and gas majors (ExxonMobil, Royal Dutch Shell, Chevron, BP and Total) have invested over \$1 billion of shareholder funds in the three years following the Paris Agreement on misleading climate-related branding and lobbying. [...] [These] five oil majors are forecast to put a mere 3% of their 2019 capital expenditure towards low carbon technologies whilst US\$110.4 billion will be put into more oil & gas.”<sup>26</sup>

### Active vs. Passive Investments

Active Investments are those that require a portfolio manager to regularly monitor holdings, and to trade in response to market shifts, in an attempt to beat the market. Passive Investments are usually in the form of index funds or other mutual funds. They are less frequently bought or sold as the passive investor tracks a market index.

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<sup>26</sup> Influence Map, 2019, <https://influencemap.org/report/How-Big-Oil-Continues-to-Oppose-the-Paris-Agreement-38212275958aa21196dae3b76220bdc>

## 2. Climate Risk

### Stranded Assets

Anticipating legal, material, international or local restrictions on the amount of carbon emissions relative to a global carbon budget, many untapped reserves will have to be left in the ground, and mines or rigs might have to go offline early. Oil and coal companies are valued (as represented by market cap and share price) not only by their annual production but by proven reserves. Resource extraction firms are valued inclusive of these untapped future reserves, and thus the valuations are overpriced and imprecise. Many companies hold more reserves than is burnable within the entire global carbon budget. As of 2015, there are at least 2.795 billion tons of CO<sub>2</sub> reserves in the form of oil, coal, and natural gas. In order to meet our Paris Climate Agreement commitments and to follow IPCC recommendations<sup>27</sup> to offer a chance to remain below 2° of warming the remaining carbon budget is 565 billion tons of CO<sub>2</sub>. This means four fifths of existing reserves are stranded assets. What we are seeing now is that many of these companies are holding – and are valued based on – unusable, stranded assets, and as such their shares will reflect this. Not only does this apply to heavy-carbon securities in the fossil fuels sector, but impacts from climate change, such as coastal flooding, could render much beachfront property stranded assets as well, influencing indexes and other securities.

### Carbon Risk

“Divestment should be understood not only as a radical strategy advocated by activist groups but also as a way to mitigate risk”.<sup>28</sup> Carbon-intensive assets, particularly coal and oil assets, represent a much higher risk to investment portfolios. Due to climate change they are at physical risk, with natural disasters and intensified problems as seen with Covid-19, demand for oil and the ability to produce it is at risk. Intense natural disasters, such as the fires in Fort McMurray,

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<sup>27</sup> IPCC, 2018, <https://www.ipcc.ch/sr15/chapter/spm/>.

<sup>28</sup> Weber & Kholodova, 2017, <https://www.cigionline.org/publications/climate-change-and-canadian-financial-sector>.

will indeed harm the normal functioning of many extractive companies and thus harm an investment portfolio, which includes their securities.

To address climate change, governments have set nationally determined contributions to reducing their GHG emissions and thus these plans pose both regulatory and transition risk. Transition towards lower-carbon energy systems both in Canada and across the world means reduced demand and a global landscape changing for the worse, at least in terms of oil company profit. To facilitate this transition there is the added risk of regulation to require reduced emissions, so not only will there be an organic reduction in use of fossil fuels, but this will be reinforced by regulatory policies. Thus stranded assets will become worthless, negatively impacting the investment portfolio.

Not specifically tied to climate change, the oil industry, and thus investment in it, is quite risky for second reason. In a world where many countries are identified as petrostates and rely on production and sale of their oil assets for a significant portion of their GDP's, the market (in terms of production volume and supply) is dictated by strategies of competing blocs, such as OPEC. As we have seen with the price war between Saudi Arabia and Russia in early 2020, it is a volatile market and not likely to become any less risk-laden in the long term.

## **Social Pressure**

The social pressure sweeping the market coming from divestment groups such as [350.org](https://www.350.org/) poses another transition and social risk to UW's carbon-heavy securities. Trading volume trends can influence whether or not a security (or type of security) should be deemed a strong or poor investment. For several years now, divestment of carbon-heavy fossil fuel (typically coal producing and oil exploration companies) has been increasing. Notable divestments from institutions such as the University of California system, the University of Guelph, the University of British Columbia, as well as the Norwegian Sovereign Wealth Fund and the European Investment Bank have all begun plans to phase out any fossil fuel investments. The more

institutions join this trend, the larger a sell-signal will be broadcast. The University of Waterloo’s investment will suffer if it is caught by the tailwind of this trend.

### 3. Moving to a Climate Neutral Portfolio

The science on climate change is clear and convincing – and impacts are already being experienced. Not only do we face the material toll of climate change, globally, we are seeing a shift in economic practices as federal governments move to institute policy to bring themselves into compliance with their international obligations to meet the Paris Climate Agreement. Notwithstanding the ethical imperative, a diverse group of investors have begun to act on financial imperative. Spurred by changing norms, policy commitments and other government regulations, the growing unwillingness of the insurance sector to support investments subject to physical risk, new technologies becoming increasingly competitive, and the potential for cross-border tariffs and litigation that may be imposed on partners not abiding by their international climate commitments, partners have begun to divest their fossil fuel holdings. See, for example, the decision by Norway’s largest pension fund to divest its holdings in four oil sands companies (three of which the University currently holds).<sup>29</sup> As a result, company stocks begin to collapse, ultimately leading to assets becoming stranded.<sup>30</sup>

While the University of Waterloo still holds investments in over a dozen fossil fuel companies that are subject to growing climate risk, following its commitment to adhere to the UNPRI, the University has begun increasingly to recognize climate risk, witnessed by its adoption of new investment managers. *Fiera Capital* was engaged in 2019, while the newly implemented UWaterloo Managed Fund was initiated in early 2020. Both organizations exclude energy companies from their holdings, meaning approximately one quarter of the University of

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<sup>29</sup> Healing, 2019, <https://www.bnnbloomberg.ca/norwegian-fund-excludes-four-canadian-firms-as-it-backs-away-from-oil-sands-1.1327753>.

<sup>30</sup> Nathwani, 2020, Divestment, Disclosures and Transition Risks <https://www.balsillieschool.ca/coronavirus-climate-and-a-clean-energy-transition-is-resiliency-achievable/>.

Waterloo’s equity funds are currently managed by firms with no energy exposure, demonstrating how the University is moving in the right direction.

While we are gratified to see the University exploring fossil fuel free investment options, we recognize that it is not only fossil fuel companies, and their associated infrastructure that are at risk from climate change. Investments in industries that might be exposed to physical risks, e.g. floods, fires, droughts, resource degradation are also exposed. These include transport, utilities, agriculture, real estate, and water assets, including aquaculture.<sup>31</sup> Note, this is not to say the University should divest from all these industries, rather that a holistic approach to divestment would include climate risk, associated with consideration of carbon-related stranding of assets.

While we do not offer a timeline in our proposed stepwise process to achieving carbon neutrality in this document, we do caution that the longer the transition takes the more the University stands to lose. As we move to carbon neutrality, we adopt the definition of this term in the context of carbon intensity, as explained by Hunt and Weber in their 2019 study, Fossil fuel divestment strategies: Financial and carbon related consequences. “Carbon intensity is a widespread method used in academic studies to evaluate carbon emissions compared with macroeconomic and financial indicators.”

Portfolio Carbon Intensity:

$$\left( \frac{\text{Constituent's Carbon Emissions}}{\text{Constituents Sales}} \right) * b$$

Where b = industry weight <sup>32p.13</sup>

(See the full article for a more detailed explanation.)

Hunt and Weber are two of many voices in their field who find that investment strategies that adopt “stricter divestment approaches, excluding more fossil fuel related stocks, have higher

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<sup>31</sup> See Preamble for references

<sup>32</sup> Hunt and Weber, 2018, Fossil fuel divestment strategies: Financial and carbon related consequences.

risk-adjusted returns and a lower carbon intensity than less strict approaches.”<sup>33p.22</sup> As such, for ethical and financial reasons we urge the University of Waterloo to adopt a stepwise approach to achieve a carbon neutral portfolio with all possible expediency. This will reduce risk and take advantage of the reduced prices on alternative assets available at this current moment.

## **A Stepwise Approach for the University of Waterloo to Achieve Carbon Neutrality**

### 1. Adopt Fossil Free Indexes.

The University has already achieved this step through its work with *Fiera Capital* and the UWaterloo Managed Fund.

### 2. Prove the Case.

2.1. The University of Waterloo divests its active investments in an endowment fund, for example, the WUSA Endowment Fund, according to the Carbon Underground 200 and “Tar Sands Companies” Equity Exposure lists,<sup>34</sup> and fossil fuel associated industries. (As of March 31, 2020, energy sector exposure in the active equity portfolio is 3.11% of all endowment funds, compared to 1.54% of the pension fund and 0.86% of the special purpose trust.)

2.1.1. The University of Waterloo divests all endowment funds according to the Carbon Underground 200 list and “Tar Sands Companies” Equity Exposure, and fossil fuel associated industries.

2.1.2. Alumni Donations/Social Fund. Akin to a practice at UBC, UW offers alumni the opportunity to have their contributions placed in a fund that supports low carbon innovations to prove these portfolios are viable. Examples would include the DivestInvest

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<sup>33</sup> Hunt and Weber, 2018, Fossil fuel divestment strategies: Financial and carbon related consequences.

<sup>34</sup> To be created with reference to the Rainforest Action Network’s Banking on Climate Change Report Fossil Fuel Finance Report. <https://www.ran.org/bankingonclimatechange2020/>

movement, which asks those who have signed the pledge to divest fossil fuel holdings and re-invest 5 percent of their holdings in renewable energy investments.<sup>35</sup>

3. Full divestment of Carbon Underground 200 and “Tar Sands Companies” Equity Exposure, and fossil fuel associated industries.

a) Funds will use an exclusion list based on the Carbon Underground 200 and “Tar Sands Companies” Equity Exposure. Any company included on the Carbon Underground 200 and “Tar Sands Companies” Equity Exposure reports would be ineligible for the Fund.

b) The Carbon Underground 200 report identifies the top 100 public coal companies globally and the top 100 public oil and gas companies globally, ranked by the potential carbon emissions content of their reported reserves. The Carbon Underground 200 list is maintained by the independent third-party provider Fossil Free Indexes LLC, and is revised quarterly.

c) Funds will also not invest in any issuers involved in exploring for, extracting, processing, and transportation of coal, oil or natural gas. A list of fossil fuel associated industries will be created with reference to the Rainforest Action Network’s Banking on Climate Change Report.<sup>36</sup>

4. Understand Stranded Asset Risk.

The University of Waterloo begins to educate itself and its fund managers on the risk of stranded assets that exist beyond strict Carbon Underground 200 considerations. Here the University will consider exposure to physical risks, e.g. floods, fires, droughts, resource degradation, and the various sectors subject to this vulnerability, such as: transport, agriculture, real estate, water assets, etc., and will shape a carbon neutral policy that addresses this exposure, which includes continuous monitoring for new exposures. The

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<sup>35</sup> DivestInvest, 2019, <https://www.divestinvest.org/>.

<sup>36</sup> Rainforest Action Network, 2020, Banking on Climate Change Fossil Fuel Finance Report. <https://www.ran.org/bankingonclimatechange2020/>

policy will also be informed by learnings from the Alumni Donations/Social Fund that will inform investments in low carbon innovations.

5. Achieve a Carbon Neutral Portfolio.

The University implements its Carbon Neutral policy, divesting exposed holdings, and updating the policy and portfolio as needed.

# Appendix

# **The University of British Columbia (UBC) Sustainable Future Pool**

## **Statement of Investment Policies and Procedures**

**April 1, 2019**

See attached document (or here:

[https://bog3.sites.olt.ubc.ca/files/2019/05/9\\_2019.06\\_Endowment-and-SFP-SIPP.pdf](https://bog3.sites.olt.ubc.ca/files/2019/05/9_2019.06_Endowment-and-SFP-SIPP.pdf)) for the University of British Columbia’s policy that directs their Sustainable Future Pool. The document constitutes the Statement of Investment Policies and Procedures applicable to the assets that make up the Pool. The purpose of this Policy is to define the governance structure for the Pool, and formulate the principles, guidelines and monitoring procedures to manage the Pool’s assets.

The Pool has two objectives:

1. (a) maximize the rate of return at an appropriate level of risk in order to:
  1. (i) honour the wishes of the donors of endowed funds;
  2. (ii) provide cash flows and capital appreciation that are sufficient to support the Pool’s current spending objectives plus inflation and expenses; and
  3. (iii) preserve the capital and purchasing power of each endowment fund within the Pool in order to provide the same level of support in perpetuity; and
2. (b) incorporate non-financial objectives to materially lower CO<sub>2</sub> emissions, including the objective of reducing or excluding investments in companies that own fossil fuel reserves.