University of British Columbia
Endowment Responsible Investment Policy version 2.0

The first version of this policy was approved on June 4, 2013. This second version has been in development since July 2013. It will be submitted to the Board of Governors for approval in April 2014.

This policy strictly focuses on the University Endowment, as the University Pension Plans have different governance structures including their own Boards.

1. Background

On June 4, 2013, the UBC Board of Governors approved a responsible investment strategy to guide management of its endowments and working capital funds. The strategy was articulated around three commitments:

1.1 Direct investment in environmental and social projects. Since 2010, the University has invested $382 million in climate change/greenhouse gas reduction projects and in student housing projects. These direct investments exemplify the University's leadership on environmental and social issues and its unique approach focused on demonstration as part of its original "University as a Living Laboratory" concept. They are the largest investments of their kind in Canada.

1.2 Good governance. The University's Investment Management Trust (IMANT) has joined the Canadian Coalition for Good Governance. IMANT has also committed to more formally emphasize the importance of environmental, social and governance (ESG) principles as one of the criteria in the selection of its fund managers.

1.3 Continuous improvement. The University has assembled a special task group within the Board of Governors to review the rapidly evolving investment landscape and recommend further changes to the full Board.

The task group has worked on clarifying the University's fiduciary responsibilities, reviewing investment best practices in this rapidly evolving area and recommending to the Board a policy statement that addresses how UBC will apply the available investment practice options to foster responsible investment while meeting its fiduciary duty to donors and its fiscal obligation to the institution.

2. Context

UBC's responsible investment policy should be considered in the broad context of its Vision to "*. . . create an exceptional learning environment that fosters global citizenship, advances a civil and sustainable society, and supports outstanding research to serve the people of British Columbia, Canada and the world."* As an expression of the University community, this vision embraces social responsibility; it guides and tests the University's actions in all spheres of activity, including learning and practice.

2.1. Learning: UBC is a teaching and research leader in many areas of social or environmental interest. As an example, UBC's Centre for Interactive Research in

Sustainability, UBC's Clean Energy Research Centre and the success of UBC's renowned bio-diversity researchers are evidence of the University's contribution to sustainability. The University supports a large multidisciplinary research effort dedicated to developing sustainable mining practices and policies for sustainable resource development. UBC researchers are also involved in many aspects of social and economic sustainability, from developing good fisheries practice around the world to helping reduce the burden of HIV/AIDS locally and globally. This research involves thousands of UBC faculty and students, and has been supported by hundreds of millions of dollars in external funding in recent years.

2.2. Practice. As the core of a large and growing community, the University has seized the opportunity to demonstrate leading activities in ESG behaviour on campus. Examples include UBC's large scale energy demand reduction and supply diversification strategies such as: the University's commitment to a 33% GHG reduction target, its $150 million investment in Clean Tech demonstrations, and the massive expansion of on-campus student housing.

This responsible investment policy is therefore just one of many interconnected ways in which UBC can and does influence a global shift toward responsible corporate and industry practices with maximum impact and minimal cost.

3. Investment Policy development

3.1 **Fiduciary responsibility** dictates that UBC invest and act solely in accordance with the requirements of its donors in accordance with the common law investment standards for trustees. Given its modest size, the UBC Endowment is primarily invested through pooled funds provided by external investment managers, rather than through direct ownership of individual securities. By investing through pooled funds, UBC is best able to diversify its investment risk and minimize external management fees and administrative costs. Investment diversification and cost minimization are critically important strategies utilized by the Endowment to achieve investment returns that meet or exceed existing spending needs and ensure the preservation and real growth of the Endowment's capital value.

3.2 **Best practices** suggest that incorporating ESG factors in the investment process is prudent and aligned with UBC's social commitment. Within the limits faced by an investor in externally managed pooled funds, UBC will incorporate ESG factors into its investment process through these options:

1. **Manager selection**. The integration of ESG factors in the investment process will be an additional criterion in the selection and retention of investment managers. The University expects all public equity managers to have incorporated formal ESG factors in the management of their portfolios within 3 years.

2. **Investor engagement**. Because UBC does not directly invest in companies, proxy voting is delegated to its investment managers. IMANT will encourage the fund managers to incorporate into their proxy voting guidelines policies that encourage issuers to increase transparency of their ESG policies, procedures and other activities. IMANT will expect the investment manager of an active mandate to consider shareholder proposals on ESG issues on a case-by-case basis. Given that meaningful summaries of proxy votes requires significant

resources, the University will provide disclosure of proxy voting for Canadian equity investments.

3. **Direct Engagement**. The endowment portfolio management structure does not make direct engagement with companies a practical option for IMANT. However, when there is significant exposure through the endowment to a particular company, industry or nation that is facing a material ESG issue, IMANT will express its concerns to the endowment investment managers and encourage them to engage directly with the issuer where appropriate;
4. **Collective Engagement.** IMANT will, on a selective basis, engage issuers, regulators, and industry groups through third parties where we believe a collective approach to engagement will be more effective than direct engagement.

3.3 **<u>Divestment</u>** or screening is an option through which investors may express their dissatisfaction with the environmental, social or governance practices of a company, industry or a nation with the aim of influencing these practices. This option may be more symbolic than effective, especially for relatively small investors such as UBC, and carries the risk of unintended consequences. This option will therefore only be considered when all five of the following criteria are met:

1. **Proven social, political, economic or environmental rationale.** Such a rationale must be supported by a body widely seen as competent and objective, such as the Canadian Coalition for Good Governance or a research or policy institute generally accepted as impartial and credible. Such an assessment does not preclude the University to take a different position on an issue.
2. **Reasonable evidence that divestment is an effective way to achieve the desired outcome**. This would be most compelling if divestment changes the behaviour of an offending company or industry. Divestment from a sector should not facilitate investment opportunities for less responsible investors, nor should it drive investment to countries and regions with weak or nonexistent regulatory regimes or ESG standards. Finally, since divestment would significantly impair, if not preclude UBCs ability to engage, the choice to divest should be demonstrably superior to our engagement.
3. **Absence of alternative policies** that are as effective at a lower cost, or more effective at the same cost. Implementation of divestment programs may be expensive for an endowment of the size of UBC. Costs of divesting activities include administrative and management resources, investment management fees, and reduced diversification.
4. **Consistency with the University's legal obligations as trustee.** The UBC Board of Governors endorses the incorporation of ESG principles into its investment policy, subject to its primary fiduciary responsibility of acting in the best interest of the University and its stakeholders. When considering divestment, the University must consider the interest of its multiple stakeholders, which include students, faculty, staff, alumni, donors, the government and taxpayers.
5. **Consistency with its other University relationships.** Any divestment proposal should be mindful of all the University's activities, of its public nature and of its ultimate accountability to the people of British Columbia.

4. Advisory Committee

In order to assess and recommend areas of engagement and to examine requests for action from its stakeholders, the University will set-up a Responsible Investing Policy Committee advisory to the Board of Governors.

An appendix to this policy outlines the mandate and composition of the Committee as well as the necessary thresholds required for the Committee to be petitioned by various University stakeholders.

5. Continuous improvement

The University, through the UBC Board of Governors, commits to a review of its existing Responsible Investment Policies at least every three years (and more often if justified by rapid industry changes) in the context of its fiduciary duty to manage the endowment in the best interests of the University.

Terms of Reference for the

Responsible Investment Policy Committee

1. Purpose

The Responsible Investment Committee is a working group mandated to advise the Finance Committee of the Board of Governors on matters of responsible investment policy. The Committee is created by and responsible to the Board of Governors of the University of British Columbia.

2. Membership

The Committee shall consist of 9 members, excluding the ex officio members, including:

- The Chair of the Finance Committee of the Board
- 5 Members of the UBC Board of Governors appointed by the Chair of the Board in consultation with the Chair of Finance; one of which will be elected by Faculty, one elected by Staff, and one elected by Students
- 1 Member of the UBC Alumni Association Board of Directors
- 1 Member of the IMANT Board of Directors (independent)
- The Vice-President, Finance, Resources and Operations.

Ex Officio Members

- The Chair of the UBC Board of Governors
- The President and Vice-Chancellor of the University
- The Chancellor of the University

3. Mandate and Procedures

The Committee shall review and recommend policies to the Finance Committee of the Board of Governors that reflect evolving Responsible Investment policies and practices from peer academic institutions or from policy group that the University has subscribed to or considers as relevant.

The Committee shall periodically review IMANT's implementation and conformity with the RI and ESG policies approved by the University.

The Committee shall also review Responsible Investment proposals received from the Finance Committee of the Board or from University stakeholders as specified in Section 4.

4. Proposals from University Stakeholders

The Committee will review Responsible Investment proposals that have broad support from University stakeholders.

For the purpose of review of a proposal, University stakeholders will be defined in the following constituencies:

- Students
- Faculty
- Staff
- Alumni

Any qualified Responsible Investment proposal will require:

- The specific actions proposed
- In the case of a divestment proposal, a comprehensive case for divestment including:
    1. A proven and overwhelming social, political, economic or environmental rationale supported by a body widely seen as competent and objective;
    2. Reasonable evidence that divestment is an effective way to achieve the desired outcome;
    3. Illustration that the request is consistent with its other University relationships or a further argument to align other University academic activities with the request;
    4. The demonstration of a lack of alternative policies as effective at a lower cost or more effective at the same cost;
    5. Consistency with the University's legal obligations as trustee.
- In the case of a divestment proposal, evidence of support from at least 2 Constituencies via:
    - A referendum by the students of The University of British Columbia (as a system) that has achieved a majority (50% +1) and a quorum of at least 20% of eligible votes.
    - A referendum by the Faculty (across both campuses) that has achieved a majority (50% +1) and a quorum of at least 20% of eligible votes
    - A referendum by the Staff (across both campuses) that has achieved a majority (50% +1) and a quorum of at least 20% of eligible votes
    - A written request from the Alumni Association Board.

Support for a Responsible Investment proposal must be collected during one academic year and delivered to the office of the Planning and Liaison Manager for the Board of Governors, which shall include authentication of signatories. Upon validation, a Responsible Investment proposal will be submitted to the Responsible Investment Committee within 90 days.

5. Meetings and Quorum

The Responsible Investment Committee shall meet as soon as practical after the date on which a valid Responsible Investment proposal is submitted. The Committee will review the proposal in accordance with these Terms of Reference and will make a recommendation to the Finance Committee of the Board within 180 days.

The Committee shall report to the Board at least once each year and shall review its Terms of Reference every three years, recommending changes to the Board's Governance Committee.

Attendance by at least 50% of the members of the Committee with a majority of attendees being members of the Board is required to establish quorum.