Endowment Evolution:

Benchmarking Responsible Investment at Canadian University Endowment Funds

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About CURI

CURI is a connective platform for students, faculty, administrators and industry professionals interested in advancing responsible investment at Canadian universities. CURI's guiding vision is a future where the investment decisions taken by universities contribute to the long-term sustainability of communities, the environment and the economy.

We work collaboratively to increase the awareness and integration of social, environmental and governance issues as part of a responsible approach to investing by universities in Canada. Towards this mission, we coordinate research projects, web-based forums, conferences and networking opportunities.

Read our strategic plan, meet our team and learn more about our projects at curi.ca

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1.0 Introduction

1.1 Project overview

With significant endowment and pension assets, universities are perfectly poised to demonstrate how capital can be leveraged for social, environmental and long-term financial sustainability. But are higher education institutions in Canada rising to the challenge?

By investigating this question, our report aims to provide baseline data against which universities can be credibly compared in their efforts to align their investment practices with their own sustainability goals and aspirations.

Table 1: Top 12 Canadian Endowment Funds by Assets Under Management in 2011/2012 (Cdn $)

University of Toronto	$1,461.9
University of British Columbia	$936.6
McGill University	$978.4
University of Alberta	$800
Queens University	$611.7
McMaster University	$519.2
University of Calgary*	$516.7
Dalhousie University	$344.5
Western University	$577.7
York University*	$326.4
University of Victoria*	$303
University of Waterloo	$261.4
TOTAL	**$7638**

* for 2011 (latest available figure)

What is an endowment fund?

An endowment fund is made up of financial gifts and bequests that are invested to create a stable source of income for the university. An endowment usually requires that the principal remain intact in perpetuity, for a defined period of time, or until sufficient assets have been accumulated to achieve a designated purpose.[1]

Endowment funds usually invested by asset managers external to the university, though the Boards of Governors' or their equivalent are responsible for ensuring the endowment is invested in line with university policies and with the intentions of the donors and future beneficiaries.

What will you find in this report?

Endowment Evolution marks CURI's foray into projects that seek to deliver practical responsible investment (RI) research of relevance to Canadian universities. In this report, we provide an in-depth evaluation of RI policies and practices at twelve of Canada's largest university endowment funds (see Table 1).

The report begins with a brief overview on RI and outlines key drivers for universities to align their investment practices with an RI approach. Section 2 presents our headline findings in a comparative format. We conclude in Section 3 with a set of reflections and recommendations that are presented as a point of departure for further discussion with university administrators. An individual RI profile for each of the twelve universities examined is available for download from www.curi.ca.

[1] Ogunc, K. 2002. Essays on Endowment Fund Management.

Why is this report needed?

Canadian universities have made great strides to integrate sustainability in their operations, management systems, research programs and curriculum in recent years. Yet research conducted by the Sustainable Endowments Institute (SEI) in its annual review of sustainability at universities suggests there is also scope for improvement.[2] To continue to make progress on implementing their commitments to sustainability, universities need detailed information on the progress of their peers and in-depth analysis that contributes to the development of best practices. However, as of 2011, SEI suspended its survey and evaluation to focus its resources on facilitating university large-scale investment in energy efficiency.

This means the Canadian universities are no longer being asked to benchmark their progress against a consistent set of sustainability indicators. The SEI has worked with the AASHE to consolidate its survey questionnaire into a self-reporting system that seeks to evaluate universities across a much broader range of indicators. In 2013, 32 Canadian colleges and universities were listed as participants and/or members of the Sustainability Tracking and Ratings System (STARS). That said, only 12 Canadian universities have been rated by STARS.[3]

While this new ratings system is commendable for its comprehensive coverage and streamlined approach to data collection, the broader scope has diluted the evaluation of university investment practices in particular. STARS evaluates the integration of sustainability into investment under its planning and engagement category (one of four categories). The total points allocated to investment in this category are 16.75 out of 100. As such, the endowment investment component reflects only 3 of 71 Tier 1 indicators in the aggregated ranking system (STARS 1.1).[4] A few limitations can be observed in this regard:

- Universities can achieve the highest (Platinum) rating, while receiving a very low score in the investment section.
- Details related to fund governance, investment beliefs, impetus for integrating sustainability into investments and RI policies (or lack thereof) are not included in the data collector.
- Since the rating system relies on self-reporting as its primary means of data collection, there is inconsistency across the level of detail provided by the universities and the terminology used.
- The majority of universities rated by STARS are located in the United States. While there are many similarities between Canadian and American institutions, differences in the size of their endowments and institutional form may warrant different levels of sustainability integration.

For the above reasons, CURI has undertaken to provide a comprehensive survey that focuses on investment practices of Canadian university endowment funds and their efforts to integrate sustainability. The study provides a resource for benchmarking universities against their Canadian peers and in the future, against themselves. Acknowledging a debt to the ground-breaking efforts of the SEI and STARS surveys, the CURI benchmarking study seeks to broaden and deepen the evaluative scope of

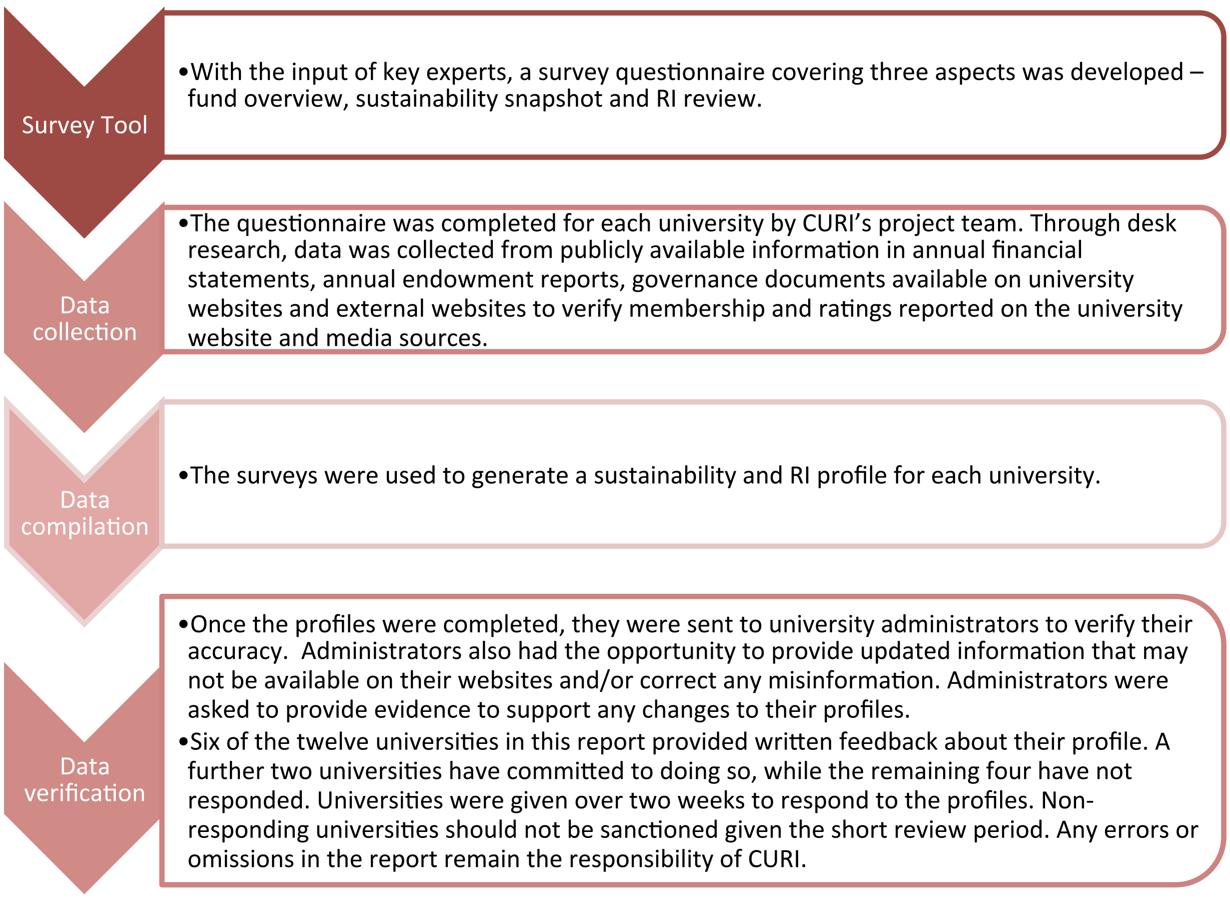
2 Average rating of STARS universities: 57%. Average score of Canadian institutions on GRC:B/B+
3 Rated STARS institutions between 2011 and 2013 (institutions are not annually rated): University of Ottawa, Western University, Concordia, Dalhousie, UBC, McGill, SFU, University of Alberta, University of Calgary, UNBC, University of Saskatchewan, Wilfred Laurier
Members, but Non-rated: University of Manitoba, University of Laval, University of Victoria and University of Windsor.
4 This is not intended as a critique of the weightings assigned by AASHE to investment or any other categories, but to highlight that investments is only one of several component of the overall sustainability agenda but nonetheless, one which we wish to draw attention to in our report.

the RI at Canadian universities.

How did we develop the report?

This pilot project was developed with the input of university faculty, administrators, students and RI professionals. CURI expects that the benchmarking evaluation developed through this project could be replicated at regular intervals and that future iterations will provide an opportunity to refine the methodology and evaluative criteria used. A detailed note on the methodology employed for the study is included in Appendix 1, whereas a summary is provided in Figure 1 below:

Figure 1: Project Methodology



Project scope and limitations

In order to keep this pilot project within a manageable scope, CURI chose to focus on endowment funds only. In addition, the inclusion of these funds in existing studies enabled us to quickly identify gaps in knowledge and practice. We focused on the 12 largest endowment funds because we expected this is where we would find the most innovation in investment practices. Larger funds tend to be subject to greater public scrutiny. They also have more resources to innovate and implement an RI approach. The selected funds have assets under management that range from $1.6 billion to $216 million, and represent a geographically diverse sample (provinces of BC, Alberta, Ontario, Quebec and Nova Scotia are included).

We acknowledge there are a number of limitations in how this study is framed. For example, we have not covered other types of university investments or RI curriculum development, training and study programs offered by universities. We chose to focus our attention primarily at the level of RI policy and practice by investment decision-makers.

However, in the future, CURI's research program could draw on the lessons learned from this pilot project and expand to include pension plans, student managed funds and capital assets to provide a more comprehensive picture of university as an investor and capture the full range of sustainable investment initiatives.

Who can use this report?

The primary audience for this report are university administrators and trustees, who may find this study useful for evaluating how their fund stacks up against Canadian peers in terms of integrating environmental, social and corporate governance (ESG) factors within investment decision making. In the future, the study can be used to identify best practices among university and college endowment funds.

For students, the report serves as an important resource for understanding the investment practices of their own universities and the constraints and opportunities for change beyond single-issue campaigns. The report provides them with information to engage in constructive dialogue with universities about their overall approach to sustainability or specific concerns about where funds are invested.

Alumni and other donors also have a stake in this information, as they may want to have a better understanding of the financial, social and environmental impacts of their donations. In addition, these stakeholders may want to use their influence to encourage universities to offer the option of investing in sustainability initiatives.

1.2 Overview of RI

Defining RI

In practice, RI is varied across type and size of investor, geography and asset class, leaving scope for significant conceptual and technical debates over its definition. For the purpose of this study, we refer to the definition adopted by the UN-backed Principles for Responsible Investment (UN-PRI) which explains[5]:

Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors, and the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems….Responsible investment requires investors and companies to take a wider view, acknowledging the full spectrum of risks and opportunities facing them, in order to allocate capital in a manner that is aligned with the short and long-term interests of their clients and beneficiaries.

Relatedly, there are diverse approaches to implementing RI with a variety of rationales that can vary from avoiding complicity in harm, the desire to promote positive social change and improving financial returns.

[5] http://www.unpri.org/introducing-responsible-investment/

Implementing RI

RI can take the form of one or more of three investment strategies: active ownership; negative screening and divestment; and impact investing.

- *Active ownership* refers to an approach that is increasingly being adopted by mainstream investors seeking to participate in the market for corporate control, though it is also being extended to other asset classes and public policy. Active ownership can take the form of exercising the share owner's formal rights such as proxy voting and filing resolutions, as well as using informal channels, such as engaging in private dialogue, letter writing and leveraging stakeholders and media campaigns to bring pressure to bear on corporations to better align their interests with long-term owners and society.

- *Negative screening and divestment* seek to remove from the investor's universe assets that fail to meet minimum criteria for investment. Some investors exclude assets that explicitly violate international laws, such as the ban on production of land mines and cluster munitions. The majority of institutional investors do not practice negative screening or divestment on a systematic basis, due to the assumed diversification loss, technical challenges associated with pooled funds and the presence of so called 'vice funds' that prevent a screened or divested firm's increase in cost of capital.

- *Impact inves*ting is a nascent approach to RI. It is distinguished from other approaches by its explicit intention to generate positive social environmental and governance benefits in addition to financial returns. Impact investing is also referred to as community investment, economically targeted investment, program related investments and mission investing.

1.3 The Global Context for RI

We do not discount the continuing debates over the definition and application of RI, as they provide scope for investors to adopt the investment approach for different reasons. Nonetheless it is important to recognize that there is a growing consensus and mainstreaming of RI in recent years.

A watershed moment at the global level in this regard was the establishment of the UN-backed Principles for Responsible Investment (PRI) in 2006. The PRI has set a contested, but globally recognized standard for RI, reflected by the rapid growth of its signatory base to represent over $30 trillion in assets[6] under management since its inception in 2006. There are three main categories of PRI signatories as indicated in Table 2 below.

Table 2: Breakdown of PRI Signatories by Category

Asset owners	269
Investment managers	743
Professional service partners	187
Total	1199

[6] As at May 2013.

Although they manage considerable pension and endowments, just five universities are signatories to the PRI (as of May 2013):

- University of Ottawa (Canada)
- Régime de Retraite de l'Université de Montréal (Canada)
- University of Dayton Davis Centre for Portfolio Management's Flyer Investments (US)
- University of Edinburgh (Scotland)
- St Andrew's University (Scotland)

1.4 Drivers for RI at Universities

3 key drivers for RI at universities

- The institutionalization of sustainability
- Fiduciary and trust law responsibilities
- The 2008 global financial crisis

Are universities institutionally distinct from other investors? How might their unique mandates spark or stifle RI approaches? Which types of stakeholders might champion RI at universities? Do university administrators and trustees have a legal obligation to consider RI in investment decision-making? These are just a handful of the many engaging questions that arise in the context of this study.

To borrow the old adage – to know where we are going, we must first know where we come from – CURI believes it is important what university stakeholders themselves see as the motivations for taking an RI approach. To derive this understanding, we convened three workshops with university trustees, administrators, faculty and students between 2011 and 2012.[7] The discussions from these workshops serve as a heuristic guide to identifying key drivers for RI at universities, as elaborated next:

The institutionalization of sustainability

Universities are seen as vanguards of innovation on sustainability, providing guidance and solutions to complex issues ranging from climate change to poverty alleviation. In recent years, universities have not only publicly committed to "walking the talk" on sustainability; they actively compete on their ability to do so in an effort to attract students and faculty, as well as positioning themselves as providing an education of relevance to current global challenges.

The Talloires Declaration (1990) was the first official statement made by university administrators of a commitment to environmental sustainability in higher education. It is a ten-point action plan for incorporating sustainability and environmental literacy in teaching, research, operations and outreach. Signed by over 350 university presidents and chancellors in over 40 countries, the declaration provided a framework and an impetus for many universities to raise the profile of sustainability issues.

With the proliferation of sustainability offices, research dollars and related initiatives in campuses across the globe, the general level of awareness around sustainability issues among university stakeholders has grown considerably over the last fifteen years. Along with this awareness, students and faculty are

[7] CURI Symposium held at the SIO Conference in Victoria, Canada in June 2011, CURI Workshop held at the UN-PRI Academic Network Conference in Sigtuna, Sweden in October 2011 and CURI Workshop held at the UN-PRI Academic Network Conference in Toronto, Canada in October 2012.

asking informed and provocative questions about the extent to which such sustainability commitments factor into how their respective university endowments and pensions are invested.

The most recent and visible evidence of this type of questioning is the GoFossilFree Campaign that has swept across North America in 2012-2013. Students at over three hundred colleges and universities are calling divestment from the fossil-fuel industry. In the words of campaigners: *"Institutions of higher education are charged with preparing their students for lifetimes of work and service. But if those institutions are invested in fossil fuel companies, then students' educations are being subsidized by investments that guarantee they won't have much of a planet on which to make use of their degrees. Colleges and universities rush to launch greening initiatives, sustainability offices, and environmental curricula, but it makes no sense to green the campus and not the portfolio. Fossil fuel divestment is a reasonable next step — and it's the right thing to do*."[8]

This type of campaigning is not new – issues from apartheid in South Africa and human rights abuses in Darfur, the Congo and Burma, to tar sands exploration in Canada have all prompted similar calls for action by university administrators. However, the frequency, scale and momentum being generated by student divestment campaigners and their supporters offer noteworthy signals about stakeholder demand for aligning investment practices with long-term sustainability.

For example, two Harvard University professors have called on the ten largest university endowment funds in the US to become signatories to the UN PRI, arguing that the credibility of the university is at risk, as students, faculty and alumni are becoming aware of the fact that university investment policies are incongruent with the values that universities themselves claim to represent.[9]

Similarly, a 2012 petition campaign to Mary Dwyer, Senior University Rankings Editor at Maclean's Magazine requesting the inclusion of "responsible investment" as an indicator in the magazine's annual university rankings report was supported by over 10,000 signatories.[10] While MacLean's ultimately declined to yield to this request to revise its rankings[11], university administrators may not be able to ignore such signals, as campaigners employ increasingly creative approaches to draw attention to university investment practices.

Fiduciary and trust law responsibilities

At the decision-making level, some endowment trustees are concerned that the incorporation of RI approaches may not be in line with their understanding of fiduciary duty, which entails the following obligations: to follow the plan or trust deed for the investment fund, invest loyally in the interests of the fund's beneficiaries, treat all beneficiaries evenly, and invest prudently with care and skill.[12]

These concerns arise when the concept of fiduciary duty is narrowly interpreted to mean that the interests of beneficiaries are best served when investment returns are maximised, such that the consideration of social and environmental issues may be in violation with the above obligations.

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8 http://gofossilfree.org/about/
9 http://www.bloomberg.com/news/2013-01-08/richest-universities-are-too-quiet-on-sustainable-investing.html
10 http://www.change.org/en-CA/petitions/maclean-s-magazine-add-an-ethical-investment-ranking-in-your-next-annual-universities-report
11 http://www.cbc.ca/hamilton/news/story/2012/12/20/hamilton-ethical-investment.html
12 CURI Symposium Meeting Report (2010).

However, if one adopts a broader and contemporary view of fiduciary duty, there are four instances where an RI approach does not necessarily contradict fiduciary duty[13]:

1. In cases ESG issues are relevant with respect to the risk/return profile of the fund trustees could be seen as acting in manner that is consistent with their duty of care and legally prudent.
2. Ethical concerns can act as a tie-breaker if the financial performance in a less socially or environmentally damaging investment is comparable.
3. The Trust/Plan implicitly provides a mandate to adopt an RI approach
4. Beneficiaries express demand for RI. It is important to keep in mind that endowment funds do not have direct beneficiaries, in the manner that pension funds do. For this reason, meeting the obligation of even handedness may be difficult in the context of endowment funds.

The 2008 global financial crisis

In 2008, Canadian universities had an estimated $11 billion in endowment funds. On average, Canadian schools had invested over half of their endowment and pension funds in world markets, which had dropped more than 30 per cent that year.[14] Queen's University reported a loss of more than $100 million, while McGill had lost approximately 20% of its $928 million fund. The University of Toronto reported a loss of 31% ($545 million) of its previous year-end value in 2009, a decline that was attributed to over investment in hedge funds.[15]

While there are many thorny issues at play, one of the lessons learned for trustees from the financial crisis is that active oversight in the investment decision-making process is needed. Some fund administrators and service providers noted that the period of serious reflection on investment practice prompted by the financial crisis may create the opportunity for greater attention and openness by investment decision makers to consider the benefits offered by RI approaches, particularly in regards to risk management.

Nonetheless, universities are increasingly called on to manage their investments and institutional practices in ways that reflect the values of their communities and their long-term commitments to future generations of students. In response, a growing number of universities are implementing RI policies and establishing multi-stakeholder groups to advise their trustees on ways of integrating ESG factors and long-term horizons into the management of universities' endowments and pension funds.

In this regard, there has been a renewed interest in the Universal Owner (UO) hypothesis, which states that a portfolio investor benefiting from a company externalising certain costs might experience a reduction in overall returns due to these externalities adversely affecting other investments in the portfolio, and hence overall market return. Universal Owners (UOs) therefore have an incentive to reduce negative externalities (e.g. pollution and corruption) and increase positive externalities (e.g. from sound corporate governance and good human capital practices) across their investment portfolios. However analysts suggest that most potential universal owners refrain from engaging corporations more actively. Better guidance, practical cost-benefit analytics and a stronger business-case that addresses long-term and macro-economic consequences are all needed for institutions, managers and the increasing number of intermediaries to understand and identify a fund's exposure to externalities and opportunities for action.[16]

[13] Ben Richardson's presentation at the CURI Symposium (2010)
[14] http://oncampus.macleans.ca/education/2008/11/24/global-economic-crisis-takes-heavy-toll-on-canadian-universities/
[15] Burrows, Malcom D. (2010). "The End of Endowments?". The Philanthropist 23 (1): 52–61.
[16] Saint Mary's College of California, Centre for the Study of Fiduciary Capitalism and Mercer Investment Consulting. 2006. Universal Ownership: Exploring opportunities and challenges.

2.0 Headline findings

This section offers a general description of key trends and findings observable across all twelve university profiles. Mirroring the survey's key sections, the findings are grouped as follows: Sustainability Snapshot; Fund Overview and RI Review. Each section concludes with a key take-away message. An individual RI profile for each of the twelve universities examined is also available for download from www.curi.ca.

2.1 Sustainability Snapshot

- 10 out of twelve university presidents have made prominent sustainability claims in the last 3 years.
- All universities in our sample have general sustainability policies and a sustainability office.
- ¾ of the universities have sector-specific sustainability policies, but the University of Alberta, UVIC, University of Waterloo and Western University do not disclose sector-specific policies.
- Only half have concrete multi-sector action plans to implement sustainability commitments (UBC, Dal, Toronto, UVIC, Western and York). McMaster, Queens and Calgary have action plans for climate change only.
- Only half disclose regular general reports against sustainability performance, 4 do not report at all (Alberta, Dalhousie, Toronto and Western). Queens and McGill claim/or are committed produce sustainability reports, but these are not disclosed. UBC is the only school to provide detailed and separate reports on a variety of sector specific sustainability commitments.
- 7 of the twelve universities are rated by STARS. UBC has a gold rating, while Alberta, Calgary, Dal, McGill and Western have a sliver rating. Ratings are valid for a three-year period, and due for re-evaluation in 2013.
- All 12 participated in the Green Report Card survey conducted by the SEI. The relevant results are summarised below:

Table 3: 2012 Green Report Card Grades Overview

2012 Green Report Card				
		Grades for RI-relevant indicators only		
University	Overall grade	Endowment Transparency	Investment Priorities	Shareholder Engagement
University of Alberta	B	C	A	F
University of British Columbia	A-	A	A	D
University of Calgary	A-	C	A	N/A
Dalhousie University	B	C	A	F
McGill University	B+	A	A	D
McMaster University	B	C	C	D
Queens University	B	A	B	D
University of Toronto	A-	A	B	A
University of Victoria	B+	A	B	F
University of Waterloo	C+	C	C	D
University of Western Ontario	B-	A	B	D
York University	B+	A	B	F

- In terms of key institutional affiliations, all 12 are affiliated with CAUBO, half are affiliated with CUSP, while only McMaster and Waterloo are *not* affiliated with AASHE.
- With regard to sustainability declarations, only Alberta, Queens and Waterloo have not signed the Talloires Declaration. Alberta, Toronto, UVIC and Waterloo have not signed the Halifax Declaration. UBC, Queens, McGill and York have signed the Universitas 21 Declaration. Half have signed the Presidents Statement on Climate Change and most are involved with local or regional sustainability initiatives.
- In relation to investment, none have signed the PRI, though York University and the University of Toronto Asset Management Corporation participate in the Canadian Coalition for Good Governance. York's pension fund participates in the Carbon Disclosure Project.

In summary
Senior university administrators and leaders are keen to publicly state high sustainability aspirations. Sustainability is generally well-institutionalised in terms of dedicated coordination mechanisms, policies, project funding and inclusive of university administrators, staff, faculty, students and the local community. However, leaders and laggards appear when it comes to having concrete action plans and reporting against sustainability commitments. Crucially, the inclusion of responsible investment approaches as part of a university's sustainability framework and commitments is virtually non-existent.

2.2 Fund Overview

Asset Mix

- The endowment funds surveyed in this report to varying degrees reflect the Yale model, or what has come to be known as a typical endowment fund asset allocation. That is, while the majority of each university's portfolio is invested in listed equity (50-60%), all endowments include some allocation to alternative assets, such as real estate, infrastructure, hedge funds and private equity. Most of these alternative assets offer a long-term return, which suggests that integrating a concern for environmental, social and governance risks is critical for university endowments.

Fund Management

- All universities use external fund managers.
- We did not evaluate whether a list of managers is disclosed for all universities, but this should be an important aspect of endowment transparency.

Fund Governance

- There is high degree of institutional isomorphism in endowment fund governance. Across all twelve universities, the Board of Governors has ultimate responsibility and oversight for the endowment fund. Strategic oversight is delegated to an Investment Committee, with day-to-day support often offered by an administrative unit supervised by the Vice-President Finance and Administration or their equivalent. Only two universities – Toronto and UBC – have established their own subsidiary investment management corporations.
- The terms of reference for the investment committees tend to be publicly disclosed. They often stipulate the composition of the committees based on stakeholder groups, though almost none articulate the specific level of investment expertise required.
- The investment committees have an average size of 10 members. The University of Toronto's President's Investment Committee is the smallest with 5 members, while the University of Alberta's is the largest, with 15 members. Most investment committee members are appointed by the Board of Governors.

In summary
University endowment funds tend to be externally managed. There is high degree of institutional isomorphism in endowment fund governance in Canada. Despite being vested with ultimate authority over university investments, Boards may exercise remarkably little oversight. In practice, management proposals and recommendations seem to be rarely questioned or debated, though more comprehensive research is needed on the actual extent, expertise required and time devoted to oversight of the investment decision-making process at Canadian universities.

2.3 RI Policies and Practices

Investment beliefs

- All universities have a statement of investment beliefs, either as a stand-alone document or incorporated in an official statement of investment policy and objectives. These statements typically address permitted asset class allocations, positions with regard to diversification, investment horizons, risk premiums, active versus passive investment strategies, currency hedging etc. They may also include commitments to certain principles such as long-termism, good corporate governance and prudence. While we found references to such a statement at McGill University, this document is not easily accessible on-line.
- Only York University explicitly references a commitment to environmental, social and governance issues, as part of its investment philosophy. The inclusion of a similar commitment in the University of Toronto's investment beliefs is currently under discussion.
- It was not possible to verify McGill University's claims that ESG issues are included in its' statement of investment beliefs and such information is not disclosed for the University of Calgary.

RI Policy

- McMaster University and Queens University have specific stand-alone RI policies, while UBC, Calgary, Dalhousie and Western do not.
- York University establish objectives and a framework for responsible investing. Specifically, these activities were "expected to include the drawing of proposed guiding principles for the Responsible Investment Action Plan and a review of the practices of the broad community of Canadian universities, to assist in shaping the direction forward".
- The University of Alberta's Sustainability Policy claims that corporations with questionable sustainability practices are not suitable long term investments. The Investment Committee's Terms of Reference also state that it may establish investment policy with respect to matters of social responsibility, though it is not clear if a stand-alone policy exists.
- RI policies are referred to at McGill and UVIC, but as they are not disclosed on-line, they could not be verified within the scope of this study.
- The University of Toronto's policy entitled "Social and Political Issues with respect to University Investment" was first approved in 1978. However the policy was revised in 2008, and re-named as the "Social and Political Issues with respect to University *Divestment.*"(emphasis added). The change in focus on the consideration of social and political issues in the context of divestment only somewhat restricts the university from committing to a broader RI approach.
- The University of Waterloo does not have a policy on RI. However, the three religious colleges affiliated with the University (Conrad Grebel; St Jerome's University and St Paul's United College) have their own SRI policies and/or use socially responsible mutual funds.

Table 4: Comparative Overview of Investment Beliefs and RI Policies

University	Investment beliefs disclosed	Investment beliefs reference ESG	RI policy
University of Alberta	☺	☹	😐
University of British Columbia	☺	☹	☹
University of Calgary	☺	■	☹
Dalhousie University	☺	☹	☹
McGill University	○	○	😐
McMaster University	☺	☹	☺
Queens University	☺	☹	☺
University of Toronto	☺	😐	😐
University of Victoria	☺	☺	○
University of Waterloo	☺	☹	😐
University of Western Ontario	☺	☹	☹
York University	☺	☺	😐

Key

Yes	☺
No	☹
Somewhat/in progress	😐
Claim but no evidence or not disclosed	○
No evidence/information provided	■

RI Practices

Impact investing

We found little evidence of impact investing across the 12 universities and claims that were made in the Green Report Card survey were difficult to validate using publicly available information. Future studies of university investment practices would benefit from a systematic review of investments made by universities that have an explicit intention to generate ancillary environmental social and governance returns, alongside market rate financial returns.

One notable example was UBC. $265 million of UBC's consolidated working capital and endowment fund is invested in social housing and $117 million is invested in climate change greenhouse gas emission reduction projects. The amount is expected to increase in the next couple of years.

Manager selection, asset selection and sustainable options

- Only three Canadian universities - Queens, Toronto and York University select asset managers based on their expertise in ESG issues, whereas a quarter of universities studied do not provide any information about whether this is a factor in investment manager selection.
- University of Alberta claims that ESG issues are a factor in the selection of managers, but this is not explicit in its policy.
- UBC states that while this issue has been considered (IMANT's due diligence process includes evaluation of ESG practices of a fund manager and incorporates these factors into investment decision making), asset allocations have not explicitly been made with managers with a strong commitment or expertise in ESG issues.
- University of Calgary and University of McMaster explicitly state that ESG issues are not considered in manager selection.
- In general, universities do not provide clear information if ESG factors are considered in asset selection. Aside from UVIC, universities claims range from informal discussions with managers about ESG issues to

general aspirational statements about ESG integration, but no specific strategies tend to be disclosed about how assets are selected in line with sustainability concerns.

- Only the University of Calgary offers donors (over $1 million) to request investments be managed differently than the current policy, which requires the approval of the investment committee. None of the twelve universities offer prospective endowment donors the option of investing in sustainable funds.

Table 5 A: Comparative Overview of Selected RI Practices

University	Actively select ESG managers	ESG factors in asset selection	Sustainable options for donors
University of Alberta	○	○	☹
University of British Columbia	😐	■	😐
University of Calgary	☹	■	☹
Dalhousie University	■	■	☹
McGill University	■	○	☹
McMaster University	😐	😐	☹
Queens University	☺	○	☹
University of Toronto	☺	😐	😐
University of Victoria	○	☺	☹
University of Waterloo	■	■	☹
University of Western Ontario	😐	■	☹
York University	☺	○	☹

Key	
Yes	☺
No	☹
Somewhat/in progress	😐
Claim but no evidence or not disclosed	○
No evidence/information provided	■

Proxy Voting

- None of the twelve universities disclose what proxy voting guidelines are issued to their investment managers, to whom proxy voting is delegated. Due to the lack of transparency on such guidance it is not possible to verify whether ESG factors are included.
- Dalhousie University is the only respondent for which it can be clearly stated that ESG factors are *not* included in proxy voting guidelines (since the guidance issued is minimal).
- Most of the universities studied state that their fund's proxy voting record is accessible to the broader university community on request. Calgary and Waterloo state that this information is not provided, whereas information on this topic is not disclosed for Queens'.

Corporate Engagement and Divestment

- There is no evidence to suggest that most universities take an active role in corporate engagement as a RI strategy. UVIC and York University appear to be the exceptions in this case.
- Queens University has divested in response to adverse human rights conditions (in relation to Darfur). The University of Toronto divested from tobacco in 2007. Student-led divestment campaigns are currently active at all universities except the University of Calgary.

Table 5B: Comparative Overview of Selected RI Practices

University	Evidence of Corporate Engagement	Divestment used in last 10 years	Active Divestment Campaign
University of Alberta	☹	■	☺
University of British Columbia	☹	■	☺
University of Calgary	☹	■	☹
Dalhousie University	☹	☹	☺
McGill University	○	■	☺
McMaster University	○	■	☺
Queens University	○	☺	■
University of Toronto	☹	■	☺
University of Victoria	☺	■	☺
University of Waterloo	■	■	☹
University of Western Ontario	■	😐	☺
York University	☺	■	☺

Key	
Yes	☺
No	☹
Somewhat/in progress	😐
Claim but no evidence or not disclosed	○
No evidence/information provided	■

Stakeholder Involvement

- Most universities do not invite multi-stakeholder input on RI issues on a regular basis.
- Only McGill University has a standing RI committee to provide advice and input on ESG issues. Toronto's committee also has ad-hoc status, and seems to have been highly active since 2009, with a record of regular meetings and policy deliberations.
- Queens' University's RI process provides for the convocation of an ad-hoc advisory committee, whenever a concern is expressed over 'social injury' in relation to university investments. However there is no evidence to suggest such a committee is currently active.
- Efforts to convene such an RI committee are actively underway at York University and UVIC.

Table 5C: Comparative Overview of RI Committees

University	Multi-stakeholder RI Committee
University of Alberta	☹
University of British Columbia	☹
University of Calgary	☹
Dalhousie University	☹
McGill University	☺
McMaster University	☹
Queens University	○
University of Toronto	😐
University of Victoria	😐
University of Waterloo	☹
University of Western Ontario	☹
York University	😐

Key	
Yes	☺
No	☹
Somewhat/in progress	😐
Claim but no evidence or not disclosed	○
No evidence/information provided	■

In summary

With only two universities having dedicated policy, Canadian universities seem slow to take up responsible investing as a dominant approach. There is very little information disclosed about specific RI strategies used, if at all. However, there are a number of encouraging practices evident in the selected sample, particularly in relation to the accessibility of a fund's proxy voting record and growing interest in convening RI committees. Although divestment campaigns continue to attract students, campaigners are starting to see the merits of engaging with administrators beyond single-issue concerns.

3.0 Challenges, Opportunities and Reccomendations

Based on our findings, we close the report by identifying 5 key challenges to the wider uptake of RI approaches by university endowment funds. Drawing on expert advice as well as information provided by university administrators, we also propose potential opportunities and action points that could address the identified challenges. We hope that these could offer a basis for further discussion and input from relevant stakeholders, in a shared effort to set high standards of achievement when it comes to aligning long term social, financial and environmental sustainability in the endowment fund investment process.

3.1 Fear of the Unknown

- *Challenge:* Bucking broader trends among institutional investors, responsible investing is not yet a "mainstream" approach for university endowments. The challenge could be that RI approaches are not well-understood or narrowly associated with negative screening.

- *Opportunity:* Given significant homogeneity in the investment management structures of the university endowment funds considered in this report, the experiences and actions taken by universities that have embraced RI approaches could provide useful best-practice guidance for other institutions that want to implement similar innovations in their investment practices.

- *Action:* Since most universities are affiliated with CAUBO[17] and AASHE, a joint initiative by these two organisations could be successful in bringing decision-makers to the table in identifying persistent barriers and opportunities for change in terms of aligning endowment investment practices with an RI approach. The input of established RI groups such as the SIO in Canada and UN-PRI at the global level could contribute practical legitimacy to such an engagement process. Peer-to-peer exchanges on tools and best practices may also send a positive signal about the potential for this alignment to occur.

3.2 Beware the Sustainability Smokescreen

- *Challenge:* While only 2 universities in this study have adopted an RI policy and only one has a formal RI committee, campus sustainability initiatives are common among all universities in this study. High sustainability survey rankings and tremendous strides forward in the implementation of sustainability initiatives in research, operations and curriculum development should not act as a smokescreen to draw attention away from the fact that very few universities explicitly address their investment decision-making role in aspirational sustainability frameworks that apply to the university.

- *Opportunity:* The study finds a positive correlation between universities that have adopted RI policies and those that have advisory committees that report directly to the university administration, such as York's President's Sustainability Council. That is, while student initiatives and centrally coordinated sustainability offices are important for rallying support and bringing

[17] The Canadian Universities' Investment Survey is published by the CAUBO Treasury & Investment Committee, and aspires to provide universities with the information necessary to assist them in better managing their investment portfolios. The survey includes both endowment and pension investment results. However, the survey is only accessible to CAUBO members and we were not able to evaluate the extent to which RI is considered therein.

attention to sustainability issues, a direct pipeline to the university administration and more specifically, the investment committee, is critical for promoting RI within a university setting.

- *Action:* Universities can build on their successes in creating vibrant mechanisms for multi-stakeholder input and action on sustainability issues, scaling up to cover responsible investing approaches. Taking the University Presidents' Statement on Climate Change as a useful model, senior university administrators could come together to discuss the potential of co-creating and endorsing a high-level commitment to sustainable and RI that could be applied across the institutions' funds. More importantly, this type of commitment could ensure appropriate communication pathways are put in place to facilitate the process.

3.3 Universities are a 'different' kind of investor

- *Challenge:* While universities face a unique set of challenges that set them apart from other asset owners (e.g. diverse group of beneficiaries, hybrid public-private institutional nature), they also share many conventional challenges that face all institutional investors, including lack of clarity over interpretations of fiduciary duty, opaque policy environments, resource constraints and lack of information on corporate ESG risks.

- *Opportunity:* University administrators have much to gain from participating in collaborative initiatives with other investors as a means to manage start-up these challenges, as well as overcoming collective action problems that may be involved in implementing RI.

- *Action:* Universities may want to explore membership to organisations dedicated to RI such as the SIO or UN PRI to take advantage of the opportunities for collaboration and resources and available to its members.

3.4 High Management Fees

- *Challenge*: Introducing an RI strategy arguably increases the governance costs of the universities' investment management, as it requires additional due diligence efforts to incorporate ESG issues into investment and often hiring investment consultants to design guidelines and strategies. While the long-term benefits of adopting an RI strategy are gaining traction within the investment community, in the short-term the costs can be prohibitive for smaller funds to move beyond applying ESG criteria to selection of external managers and proxy voting guidelines. For example, active engagement on ESG issues increases management fees and impact investing requires significant cost associated with searching for opportunities and monitoring performance of investment managers.

- *Opportunity:* Proposals such as the 'Facilitating Pooled Asset Management for Ontario's Public Sector Institutions Report', commissioned by the Government of Ontario can contribute to reducing investment management costs due to economies of scale, provide greater access to alternative sustainable themed asset classes, enhance risk management and improve long-term risk/return opportunities.

- *Action:* Universities could participate in existing and future policy discussion for pooling public sector funds and in particular, advocate for the inclusion of RI in the mandate of these new investment management institutions.

3.5 Polarizing Dynamics

- *Challenge:* The dominant push factor for university-level discussions on RI tends to be student-led divestment campaigns. Regrettably, sometimes these campaigns can lock administrators and students into an "us versus them" mindset, thereby precluding constructive dialogue. In addition, student divestment campaigns tend to be issue-specific and have a short time horizon, often placing demands on the university that its investment committees cannot meet within specified investment policies. Some universities are also able to adopt a "wait it out" strategy in response to student pressure, as divestment campaigns tend to be led by senior-level student who tend to graduate within one-to-two years.

- *Opportunity:* By establishing appropriate infrastructure, such as an RI committee, universities can use this as a platform for diffusing the harmful and negative reputational effects of existing divestment campaigns and mitigate risk of future divestment campaigns. Most importantly, it offers an established mechanism for inviting alternative viewpoints through a systematic process. Administrations could also use this forum to regularly communicate and engage with its stakeholders on what the university is doing with respect to RI. Our analysis shows that while many universities are implementing RI, these initiatives are not communicated effectively, often buried in annual reports or investment statements.

- *Action:* Universities could develop a communication plan around its investment practices for its stakeholders, including broader community and consider establishing advisory multi-stakeholder investment committees, as has been done at the University of Toronto, to engage students, faculty and alumni in productive discussions around the university's investment practices

APPENDIX A
Methodology

Research approach

The survey instrument was developed by drawing together relevant indicators from the UN Principles for Responsible Investment reporting framework and the Endowment section of the College Sustainability Report Card. Additional indicators that were relevant to the investment practices of universities were also included in the survey. Members of CURI's advisory board were consulted on the development of the survey instrument.

The survey covers general information on each fund, including fund size, asset mix, portfolio performance; governance structures (decision-making processes, delegation of responsibilities and powers, transparency, and specific policy questions related to proxy voting, selection and evaluation of external management, investment process); evidence of integrating sustainability into investments; and broader sustainability policies of the university. The survey includes both open and closed questions to ensure comparisons can be drawn across the funds, while allowing the flexibility for explaining the unique circumstances of each university.

Selection of universities

Twelve Canadian universities are selected based on their size of their endowment funds with combined assets of $8 billion CND (total university endowments in Canada- $11 billion).

The rationale for selecting the largest funds is based on the expectation that this is where we would find the most innovation in investment practices, given the visibility of the institutions and resources required to implement such innovation. Despite the focus on the largest endowment funds, the funds range widely in size: the largest is $1.6 billion and the smallest is $216 million.

The largest universities provide a geographically diverse sample, representing five provinces. (Geographic regions not represented in the study: PEI, the territories, New Brunswick, Newfoundland, Manitoba and Saskatchewan). *Ontario, BC, Alberta, Nova Scotia, Quebec*

Collection and verification of data

Data were collected over the period of October 2012-December 2012 by three research assistants (a combination of paid and unpaid positions). Each researcher was assigned a specific set of universities. The research assistants were provided with the same set of instructions and guidelines to ensure consistency in data collection.

Data were collected from publicly available information in annual financial statements, annual endowment reports, governance documents available on university websites and external websites to verify membership and ratings reported on the university website and media sources. The research coordinators confirmed the information collected by the research assistants. Where data was missing, the research coordinators did their own search to confirm that the information was not available publicly.

It should be noted that during the verification process, one university administrator raised concerns about including student media sources such as opinion pieces from student newspapers within the benchmarking process. The authors have chosen to retain information sourced from student media. However, we agree that in the absence of other studies, interviews or focus groups to this effect, student media sources may be a less than ideal proxy indicator for student perceptions about the level of engagement from their universities on investment issues.

The research assistants were instructed to provide sources for each survey question. Preference was given for primary sources (annual financial statements, official university reports), but if there was no evidence, research assistants were asked to search for secondary data (such as the Green Report Card).

Once the profiles were completed, they were sent to university administrators to verify their accuracy. The administrators also had the opportunity to provide updated information that may not be available on their websites and/or correct any misinformation. Administrators were asked to provide evidence to support any changes to their profiles. The administrators were given four weeks to respond.

The rationale for collecting data publicly is threefold: Avoiding “survey fatigue” from included universities; Enables the research team to establish the appropriate threshold for level of detail; Allows for consistent use of language to enhance comparability across profiles.

Data analysis

The research coordinators began the analysis by considering data gaps in the completed surveys. Since the survey questionnaire was designed with the intention to be completed using only public information, the surveys were largely complete (gaps included lack of detailed asset allocation and investment beliefs not available for all funds). The research coordinators decided the gaps were not significant for the pilot study and no formal interviews with university representatives were required at this stage.

The sample size is too small for statistical inference and thus conclusions about causal relationships are not drawn. That said, the results provide the opportunity to consider the characteristics of universities that have integrated sustainability into their investment practices and to identify what drivers have led to adoption and whether similar drivers are present at other universities in the study.

The research coordinators collated the information from each survey and identified trends across the 12 universities. The researchers considered the extent to which fund size, asset allocation, geography, governance systems and the degree to which sustainability had been integrated into other areas of university operations and administration could be used to predict the integration of sustainability into the university investment practices.

Future directions of benchmarking study

The research coordinators agreed it is too early to assign firm rankings to the 12 universities included in the study or to draw any conclusions regarding best practices. However, the study provides a comprehensive narrative of what the largest universities in Canada are doing with respect to integrating sustainability into their investment practices. Future versions of the survey will be developed through a review process that will include consultation with the practitioner community, university representatives and based on feedback from the research assistants involved in this pilot study.