Values and Responsibility:

Developing a Responsible Investment Policy at The University of British Columbia

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by

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We accept this project as conforming
to the required standard

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A mi familia, mi Universidad y al movimiento de Inversiones Responsables

To my family, my University and the Responsible Investment movement

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The author assumes full responsibility for any errors

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Executive summary

The investment returns of educational endowments in North America fell 24.1% on average in the last six months of 2008 (Commonfund Institute, 2009, p. 23). The overall losses represent a decline of about $94.5 billion USD in the value of endowment assets for the period of July 1 to November 30, 2008 (NACUBO and Commonfund Institute, 2009, p. 3). The devastating impact of the recent financial crisis on the value of endowments highlights the need for more rigorous investment management policies among institutions of higher learning. As part of expanding and strengthening the investment practices of colleges and universities, the present report argues that by engaging the expertise of a diverse set of academics and professionals, 'Responsible Investment' (RI) approaches provide valuable tools to identify and mitigate risk, thereby enhancing investment performance.

The term 'Responsible Investment' used throughout this report represents an overarching expression of investment approaches that integrate the consideration of financial and non-financial issues into the valuation of investments, choice of assets and ownership practices. Non-financial issues are often understood as the potential impact of environmental, social and governance (ESG) factors on investment returns. Responsible Investment represents an evolving movement based on a growing awareness by the general population of the material impact of ESG factors on the future long-term financial performance of investments (Eurosif, 2006, p. 11).

It is now widely understood how, in the months leading to the credit crisis of 2008, poor corporate governance practices such as the securitization of toxic sub-prime mortgages within some of the world's largest financial institutions, along with the misleading credit ratings given to those investments, exposed the entire financial system to excessive risk.

Amidst the more volatile investment climate resulting from the default of these mortgages and the ensuing credit crisis, there is a growing recognition of the material impact of corporate governance issues on the long-term value of investments.

The Treasury Department of The University of British Columbia (UBC) commissioned the present research in order to document industry and university trends regarding emerging RI practices and the investment of assets endowed to universities.[1] Specifically, in light of the recent global financial crisis and the highly volatile investment climate, the present report examines the ongoing fiduciary responsibility of the University and its trustees to take ESG issues into account in financial decision-making.

UBC's working capital assets were certainly vulnerable to losses incurred in what were originally thought to be safe money market investments but ultimately turned out to be alternative investments and, as a result of unwarranted reliance on external credit ratings (P. Smailes, personal communication, December 11, 2009). In the 2006/2007 annual report, the University announced that due to strong financial performance the UBC endowment had grown to $1.01 billion, reaching a major milestone for the institution three years ahead of schedule (UBC, 2007b). In the following two years, however, the University's endowment investment returns dropped almost 25% from 2006/2007 levels (Smailes, 2009). In the financial statements of the fiscal year ended

[1] Note: The existing Terms of Reference for the creation of UBC's Advisory Committee to examine the potential impact of ESG issues uses the term 'Socially Responsible Investment' (SRI). The term 'Responsible Investment' is used throughout this report to reflect a growing trend among institutional investors and financial services participating in the United Nations Principles for Responsible Investment (UN PRI).

> * "The Principles for Responsible Investment, convened by UNEP FI and the UN Global Compact, was established as a framework to help investors achieve better long-term investment returns and sustainable markets through better analysis of environmental, social and governance issues in the investment process and the exercise of responsible ownership practices. The Principles, themselves, and a full list of signatories and more information can be found at www.unpri.org"
>
> * United Nations Principles for Responsible Investment (UN PRI). (2009, October 20). *Media release: Spanish investors urged to consider responsible investment.* Retrieved December 15, 2009, from UN PRI: http://www.unpri.org/files/spain_final.pdf

March 31, 2009, UBC's endowment dropped by $203 million to $616 million, as a result of endowment investment losses and spending totaling $223 million (offset by $20 million in donations to the University) (UBC, 2009a, p.9, 33).

To make things worse, the University's working capital also suffered considerable losses due to investments in impaired and defaulted Canadian Asset Backed Commercial Paper (ABCP). As of March 31, 2008, UBC held within its operating investment portfolio[2] ABCPs with an original cost of $130.6 million (UBC, 2008, p. 37). As defaults and liquidity issues froze the ABCP market since August of 2007, thereby decreasing the value of these securities, the University's financial statements reflected investment losses of $37.9 million for the 2007/2008 fiscal year (Ibid) and an additional $28.7 million for the year ended March 31, 2009 (UBC, 2009a, p.26). UBC recently participated in a restructuring plan to exchange the short-term notes for longer-term notes (Ibid., p.25), However, it is still uncertain if the ABCP issue will continue to generate further setbacks to the University and increase its credit risk for holding these notes (Ibid, p.26.).

While UBC's overall investment losses compare favourably in relation to many of its peers, by the end of the 2008/2009 fiscal year the University had incurred a deficit of $215 million dollars (Ibid., p.2). In order to cope with the shortfall, the University administration decided, on one hand to dip $46 million into the value of the endowment (Ibid.) and on the other, to reduce the endowment-spending rate from

Table 1. Impact of endowment investment losses according to UBC President S. Toope

"The reduction in the rate of return to a sustainable level, combined with the reduction in the market value of the Endowment following the 2008 downturn, means that the net amount available to be spent from the Endowment will decline by about 50 percent in the next fiscal year (1 April 2009 – 31 March 2010)."

Source: (Toope, 2009)

[2] Operating investments consist of research, capital and other funds received and held in advance of future expenditures (UBC, 2009a, p.25). As these funds tend to sit idle in the University's operating accounts before the expenses are due, it is common to invest excess funds into short-term and secure investments. Due to the complex nature and the lack of publicly available information regarding the underlying assets bundled in ABCP's, UBC and other investors around the world unknowingly assumed excessive risk levels.

5% to 3.5% (Toope, 2009). The unprecedented decline in the value of the University's endowment and the tough measures required to deal with investment losses pose serious challenges to the University's operations (see Table 1). What mechanisms are available to the University's trustees to identify and minimize future investment risks emerging from issues such as the poor corporate governance practices that lead to the ABCP debacle?

It has been argued that RI can help to avoid additional financial crises by enhancing corporate governance surveillance and building more sustainable capital markets (UN PRI, 2009, p. 1). To do this, modern RI practice involves a comprehensive analysis of "a broad range of environmental and social risks, a more proactive approach to corporate governance and increased transparency and accountability both in investors' own operations and those of the companies they invest in" (Ibid.).

The emergence of RI among universities over the last few years corresponds to increasing public expectations that institutions of higher learning should also demonstrate greater transparency and social responsibility within their institutional and financial practices. As a response, a growing number of colleges and universities in North America are implementing RI policies and creating multi-stakeholder groups to advise university trustees on ESG issues affecting the investment of endowments and pension funds.

At least 30 colleges and universities in the United States have established committees on investment responsibility (C. Weber, personal communication, August 21 2009). Meanwhile, Canadian universities have just begun to incorporate modern RI frameworks into their investment philosophy. The University of British Columbia is among several Canadian institutions currently developing RI policies.

Last May, the University of Toronto became the first Canadian university to create an RI advisory committee (Riggall, 2009). Similarly, the board of trustees of Queen's University approved last March a policy that authorizes the creation of an advisory committee to provide recommendations on investments considered to produce social injuries (Queen's University, 2009**;** Forbes, 2009). The present research also identified discussions about implementing responsible and sustainable investment frameworks at the University of Calgary and the University of Ottawa.

The growing importance of Responsible Investment among institutions of higher learning suggests an increasing need for an institutional RI policy at UBC. By taking a proactive approach, an RI framework can offer a constructive mechanism to assess and mitigate financial risks arising from controversial and volatile environmental, social or economic crises. An RI framework can also help to identify investment opportunities in companies that through positive ESG practices are able to attract top talent in their industry, benefiting from increased productivity and higher profits.

The findings of this research suggest that there is enough interest and a need to create a coalition of Canadian university members to examine and share RI best practices. However, if UBC and its peers miss the opportunity to incorporate RI practices on their own terms, they are likely to encounter growing public demands and the enactment of new regulations calling for increased accountability and social responsibility to be reflected in their financial management practices. [3]

Despite increasing efforts to implement RI practices among universities, up until now, academic institutions have been reluctant to formally implement RI investment frameworks. This situation largely stems from a frequently held notion that having an RI

[3] In the UK, for example, the laws applying to investments of pension funds require trustees to document the extent to which social, environmental and ethical issues are taken into account in the selection, retention and sale of investments (Acharya, S., & Dimson, E., 2007, p. 270). Divestment efforts on enviromental issues such as Canadian tar sands or human rights violations in countries like Sudan and Darfur could lead to further moral and regulatory restrictions on investments.

framework reduces the investment universe available to administrators, may increase volatility and, most importantly, result in lower endowment returns (Smailes, 2009). These are important considerations for university trustees as they are morally and legally required to act in the best interest of their institutions.

There is, however, mounting evidence that suggests that there is a positive relation between corporate social/environmental performance (CSP) and corporate financial performance (CFP) (Orlitzky, 2003). The present report outlines a review of three influential meta-analysis studies aggregating the findings of over 120 individual peer-reviewed studies and working papers. These studies suggest that, when formulated appropriately, investment strategies based on the consideration of ESG issues do not necessarily lead to financial underperformance (Donald, 2008; Mercer, 2009b). Based on this research and discussions with key stakeholders, this report argues that the analysis of ESG issues reduces investment risk by providing for a more comprehensive analysis of investments at a time when a lack of ESG considerations is creating heightened risks for universities and investment managers (for example, in the form of poor corporate governance practices).

Mindful of the need to address increasing complexities and volatility for effective financial decision-making, and based on extensive research on emerging RI practices among universities, it is recommended that UBC adopt the following recommendations:

1. Develop a Responsible Investment advisory committee

An RI Advisory Group can help the UBC Board of Governors examine the potential impact of ESG issues on investment returns, interface with parties who wish to express concerns over the University's investment practices, and build 'in-house' risk management capacity.

2. Hire an institutional risk manager with an RI mandate

Implementing an effective RI policy requires considerable time and effort. It is recommended that the University allocate adequate financial resources to develop an RI strategy and to hire a paid staff person responsible for coordinating risk management efforts along with the activities of the RI advisory committee. The cost to fund this position would be similar to that of staff that currently evaluates the University's investment managers and could add significant value through increased long-term returns.

3. Engage faculty, staff and students

In order to develop a cost-effective RI strategy, it is recommended that a wide range of perspectives is engaged and the expertise of the University's academic and scientific community is leveraged. These actions can help to address the potential impact of ESG issues on investment returns and, at the same time, protect the University's reputation.

4. Participate in coalitions

Colleges and universities participating in collaborative action can share best practices, achieve economies of scale in implementation costs and prevent unnecessary duplication of efforts. Specifically, UBC should participate in the efforts to set up an RI coalition of Canadian universities, and become a signatory to the United Nations Principles for Responsible Investment (UN PRI) and the Responsible Endowments Coalition (REC).

5. Create educational opportunities to advance knowledge and expertise in the field of Responsible Investment

This report's research suggests that Canadian academic institutions require further research and education on RI and the consideration of ESG issues as a risk management tool. As an interdisciplinary investment framework — incorporating the growing understanding about the interconnection between environmental, social and economic issues — RI represents a promising area for the improvement of conventional financial and economic practices.

About this report

UBC's School of Community and Regional Planning (SCARP) offers the option of developing a professional project as a partial requirement for completing a Master's Degree. Omar Dominguez, as a graduate student choosing this option, worked under the direction of Peter Smailes, UBC Treasurer, and Professor Anthony Dorcey, from SCARP, to complete this research.

Professional projects provide students an opportunity to develop and exercise their skills and judgement in problem definition and to demonstrate professional competence in the supervised design and execution of an individual planning study. In order to fulfil SCARP's academic requirements, Omar was expected to write a report that demonstrated an appropriate design and approach for formulating a set of suitable Responsible Investment guidelines for UBC. The present report is the capstone of Omar's work, which has extended over nearly two years.

This project formally started in January of 2008, when UBC's Alma Mater Society (AMS) recruited Omar to conduct a background study of the University's investment practices. Omar was responsible for developing informational materials to help prepare student representatives who would eventually sit on the forthcoming UBC RI advisory committee. After writing the initial report for the AMS, Byron Braley (Associate Vice President Treasury and Business Development) of the UBC Treasury Department commissioned Omar to serve as both a logistical and informational resource to develop the University's RI strategy.

In the course of this research, Omar has participated in symposia and conferences in order to survey RI best practices, share his findings and identify allies for UBC's RI efforts. These events have included:

- *19th SRI in the Rockies Conference*, Whistler, B.C., October 26 -29, 2008. SRI in the Rockies is the largest gathering of the North American RI Industry. (See appendix A for a conference briefing report with suggestions and action plan for initial stages of the UBC RI Advisory Committee.)

- *Responsible Endowments Coalition (REC) Conference*, New York, February 20, 2009. REC is a diverse academic network that links students, faculty, university staff and investment professionals engaging in collaborative responsible investment initiatives. The REC conference consisted of a networking and training day for members of RI advisory committees of North American universities (See appendix B for a conference briefing).

- *Canadian Business Ethics Research Network (CBERN)*, Ottawa, May 29 – 31, 2009. CBERN is a network of academics, government, business and non-profits supporting business ethics research in Canada. The conference's goal was to provide networking opportunities for academics and investment practitioners. Omar was invited to present his Master's Degree research prospectus. After the conference, Omar travelled to Toronto where he interviewed Mr. Anthony Gray, Special Advisor to the President of the University of Toronto (UT). During this interview, Mr. Gray talked about the recent creation of UT's RI advisory committee (See appendix C for CBRN conference report and summary of Omar's interview with Anthony Gray).

- *2nd Academic Conference, United Nations Principles for Responsible Investment (UN PRI)*, Ottawa, October 1 – 3, 2009. The UN PRI is a voluntary investment framework adopted by a growing number of institutional investors. UN PRI signatories include pension funds, government reserve funds, foundations, banks, insurance companies and other investment professionals. As of December

31, 2008, the UN PRI signatories had a combined total of $18 trillion USD of assets under management (Tagger, personal communication, August 25, 2009). Every year, the UN PRI hosts a conference that brings together experts and researchers focusing on socially and environmentally responsible investment approaches. Omar was invited to present a condensed version of his Master's degree research (See attached report on Responsible Investment Practices Among the Universities).

Methodology

It is a requirement that all research conducted under the auspices of UBC or undertaken by persons connected to the University must be reviewed and approved by UBC's Research Ethics Board (UBC Office of Research Services, 2009). The approved methods of data collection employed to write this report included:

1. Review and analysis of relevant information available through academic journals, the media and the Internet regarding RI practices among various types of institutional investors (e.g., pension funds, charitable foundations and financial institutions).
2. Review and analysis of information available through academic journals, the media and the Internet regarding RI practices among universities.
3. Review of university websites for information about emerging issues and institutional approaches to responsible investment among academic institutions.
4. Interviews with key stakeholders at selected universities and in the responsible investment sector. These interviews included discussions with members of RI advisory committees in other academic institutions, investment professionals and representatives of RI coalition groups.

The appendices to this report include conference briefings as well as the analysis of the above-mentioned literature and key stakeholders interviews. From time to time, readers are referred to these documents for a more detailed explanation of concepts that are only briefly mentioned in the present discussion and recommendations to develop an RI policy at UBC.

Up until now, there has been little academic research examining Responsible Investment approaches by academic institutions. The present research focuses on the particular context of UBC's investment practices and the potential impact that the consideration of ESG issues may have on the long-term financial performance of those investments. This research, however, can also serve as a useful case study for institutions exploring potential impacts and strategies to consider while incorporating RI frameworks to the management of their endowments and pension funds. Through this work, my goal is to hep address current gaps in the academic research.

1. Background

Colleges and universities around the world bear a great deal of social responsibilities. These institutions are responsible for the creation and dissemination of knowledge, for the instruction of technical skills required to manage complex human and natural systems and for inculcating forms of proper behaviour among young people. In order to accomplish these goals, society grants universities a great deal of autonomy and resources. Funds or property donated to a university — the institution's endowment — provide financial support for research and education. In order to provide a sustainable benefit to current and future generations of students, faculty and employees, universities and their endowments must exist in perpetuity.

When a benefactor donates to a university, the university commonly invests these funds into various financial instruments. A portion of the income generated from these investments supports current institutional needs such as construction of new buildings, professorships and student scholarships (REC, 2008, p. 10; UBC, 2007a, p. 5). The rest is reinvested to protect the capital base against inflation. This approach to managing the university endowment ensures that initial donations retain or increase their value over time for the benefit of the university (Ibid).

University endowments vary in size, investment approaches and the spending-rate applied to investment returns. As the endowment's principal is rarely spent, older schools tend to have larger endowments (REC, 2008, p. 10). Endowments must weigh the need to generate returns to fund future educational needs and preserve capital through a conservatively managed investment approach. Generally, there are two underlying forces driving the interest of colleges and universities to invest their endowments in global financial markets. First, as the world's population grows, academic institutions must strive to provide competitive programs to increasing numbers of students, produce research to address society's most pressing challenges, and rely on diminishing public funding to fulfil these goals. Second, a relentless pursuit for institutional prestige has also resulted in a strong focus on endowment growth. Universities with large endowments are in a better position to withstand the challenges of diminishing public funding, attract influential academic leaders and support expensive research projects. Great Universities have great endowments.

Given these financial exigencies and current endowment management practices, the operating budgets of several institutions have become over-reliant on their endowments. Over the last few years, large North American institutions have funded up to one third and, as much as one half, of university operating budgets from endowment investment returns (Marks & Wu, 2008; Zezima, 2009; Denmark & Segal, 2009). For university trustees, this situation often inflicts excessive pressure to leverage university resources and assume considerable risk to maximize endowment returns. Based on the expectation of high investment returns arising from alternative assets, colleges and universities in the US assumed high spending levels and, have recently been forced to borrow additional funds and cut expenses to cope with budgetary deficits (Denmark & Segal, 2009). Many universities have also faced liquidity problems as they reduced their positions in fixed income and cash to invest heavily in hedge funds and other alternative assets (Denmark & Segal, 2009; Church & McFarland, 2009).

Preserving intergenerational equity in spending is a primary objective of endowment management practices (UBC, 2007a, p. 19). This means that the financial decisions that trustees make to support current institutional expenditures should not compromise the capacity of the university to support future generations of students, faculty and staff. To accomplish this, academic institutions often implement endowment-spending practices based on a comprehensive analysis of financial markets and take into account the role of inflation over the long-term performance of their investments. Over the last couple of decades, considerable changes in the performance of investment returns forced many universities to reduce their annual spending rates (Smailes, 2009). For example, strong markets through the 1990s provided UBC annual spending rates of up to 6% over the three-year average market value (UBC, 2007a, p. 19). In 2004, however, with diminishing endowment investment returns, the University reduced the spending level to 5% (Ibid.). In February of 2009, anticipating even lower investment returns, the UBC administration further reduced the endowment-spending rate to 3.5% (Toope, 2009).

In the wake of the recent financial crisis, educational endowments' investment returns fell 24.1% on average in the last six months of 2008 (Commonfund Institute, 2009, p. 23). A report by the National Association of College and University Business Officers (NACUBO) and the Commonfund Institute (2009) estimated an overall decrease in endowment market value[4] of roughly 23% as a result of investment losses in the period from July 1 to November 30, 2008 (p. 3). The overall losses for this period equate to a decline of about $94.5 billion in endowment assets, much of which was incurred by the institutions with the largest endowments (Ibid.) and those heavily invested in alternative investments (Denmark & Segal, 2009). This represented the biggest drop in the value of endowments since the 1970s (Zezima, 2009), a time when endowment growth was affected by low returns and high interest rates (Clarke, Malott, and Mehrotra, 2005, p.22).

The impact of the financial crisis on investment returns has been so severe that many universities around the world have faced considerable challenges maintaining current levels of operations (Zezima, 2009; Denmark & Segal, 2009). For instance, Harvard, the world’s richest university, in only four months lost 22% of the $36.9 billion of endowment assets reported at the end of June 2008 (Marks & Wu, 2008). Harvard normally covers about 35% of the university’s operating budget through endowment returns. However, the unprecedented $10 billion loss in the year ending June 30, 2009 resulted in wage freezes, cuts to student funding and staff layoffs, and halted

[4] Endowment market value includes investment returns plus growth from gifts, bequests, and other donations, minus withdrawals for spending, management fees, and other expenditures (NACUBO and Commonfund Institute, 2009, p.2).

construction of major infrastructure projects (Ibid.; Denmark & Segal, 2009). Last February, Harvard Management Co., which employed over 200 people to manage the university's investments, announced it was going to dismiss about 25% its workforce (Herbst-Bayliss, 2009).

The University of Toronto (UT) is another academic institution facing the consequences of assuming excessive risk exposure in its investments. Following investment models used by Harvard and Yale, in 2000, UT established the University of Toronto Asset Management Corporation (UTAM) as a subsidiary of the University (Church & McFarland, 2009). UTAM's approach as a 'Manager of Investment Managers'[5] allowed the University to grow its endowment from just over $1 billion at the beginning of its operations (Ibid.) to over $2.1 billion by the end of 2007 (UTAM, 2009). However, in 2008, UT's investment losses amounted to $1.5 billion, a drop of almost 30% over the fund's value in the previous year (Church & McFarland, 2009).

Table 2. Investment risk and endowment losses at the University of Toronto

In retrospective, UTAM made an erroneous assumption that the record gains of the Canadian dollar versus the American dollar in 2007 would continue. Betting on the continuation of this trend, UTAM adopted a policy to hedge 100% of the portfolio against U.S. dollar exposure. This strategy resulted in $600 million in loses as the Canadian dollar lost 25% of its value against the US currency. Additionally, UTAM's decisions to decrease many of its positions in bonds and invest almost one third of the endowment in hedge funds also aggravated the university's losses, including $5 million lost in an indirect fund of funds investment associated with Bernard Madoff's ponzi schemes. Faced with the massive losses, UT is forced to undertake a serious analysis of its investment structure, including the value of maintaining the very existence of UTAM and its active investment approach.

Source: Adapted from (Church & McFarland, 2009)

5 Under a 'manager of managers' model, the university's investment subsidiary is responsible for conducting research on investment management houses in order to identify firms, or individuals within those firms, who they consider to be the best available specialists for different asset categories or different investment styles (Barnett Waddingham LLP, 2002). Typically, a university will use a variety of investment houses with distinct geographic foci and diverse investment mandates.

Certainly, the impact of the recent financial crisis on the value of investments and the prevailing expectation of low long-term investment returns have called into question the effectiveness of current endowment management and investment policies (Denmark & Segal, 2009; Smailes, 2009; Commonfund Institute, 2009, p. 101). Colleges and universities in North America have been forced to re-evaluate their investment models and spending practices (Denmark & Segal, 2009). For example, Harvard CIO Jane Mendillo has said that she is going to reduce the university's 13% allocation to private equity and bring more of the assets in-house to ensure greater liquidity and transparency (Ibid.). Enhanced financial analysis and risk management practices will also be an important aspect of a revised investment model for universities (Ibid.; Smailes, 2009). Most endowments' administrators agree that the key to managing risk is understanding it more fully, using metrics and stress tests that look at the whole range of potential outcomes and applying them to the whole spectrum of asset and liability classes (Ibid.).

How can universities strengthen their in-house capacity to analyze and mitigate emerging investment risks? How can colleges and universities assume their responsibility to develop and promote new standards of financial literacy required to prevent similar crises from happening in the future? The present report argues that a refocus on risk management along with the widespread adoption of RI frameworks by academic institutions can serve as a valuable tool to accomplish these goals.

Indeed, several universities have established advisory groups to provide formal and ongoing advice regarding emerging ESG risks and opportunities that should be taken into account in decisions about the investment of their endowments and pension funds. Moreover, engaging students in the RI debate can be a practical educational approach to examine market-based approaches to developing a sustainable economy and a resilient financial system.

2. Responsible Investment and financial performance[6]

Over the last couple of decades, there has been considerable public and academic debate over the relationship between Responsible Investment and financial performance. Considering the material impact of ESG issues, are Responsible Investment approaches likely to enhance or undermine investment performance? There is a prevalent perception that the cumulative results of academic studies examining this question are inconclusive (Orlitzky, 2003, p.404). It is also common to find a preconception that considering ESG factors in investment analysis and decision-making leads to financial underperformance (Mercer, 2009b, p.1). There is, however, mounting evidence that suggests otherwise.

The present section outlines a review of three influential meta-analysis studies, aggregating the findings of over 120 individual peer-reviewed studies and working papers. Overall, these studies suggest that there is a positive relation between corporate social/environmental performance (CSP) and corporate financial performance (CFP) (Orlitzky, 2003). These studies suggest that, when formulated appropriately, investment strategies based on the consideration of ESG issues do not necessarily lead to financial underperformance (Donald, 2008; Mercer, 2009b).

Meta-analysis research methodology

Meta-analytic reviews of quantitative and qualitative studies are a useful technique in many subject areas where multiple individual studies present inconclusive or conflicting results (Orlitzky, 2008, p. 404). Meta-analysis studies examine the evidence as a whole. The studies covered in these meta-analyses are significant for their application of traditional financial theory to examine the effect of corporate social responsibility and

[6] The author of this report would like to acknowledge the advice and recommendations of Bob Walker, Vice President, Sustainability at Northwest & Ethical Funds L.P. on this section.

the consideration of ESG issues on corporate financial performance (Mercer, 2009b, p. 3). Such studies have been influential in terms of expanding conventional financial theory to include additional financial factors and are frequently referenced in academic journals and industry reports (Ibid.).

The three meta-analysis studies reviewed in this section embody a diversity of RI strategies, research methodologies, sample sizes, markets, units of measurement and time periods considered (Donald, 2008, P. 50). The first study is based on quantitative analysis (Orlitzky, 2003) and the other two (Donald, 2008 and Mercer 2009b) are largely based on narrative analysis.[7] The studies are presented in the chronological order in which they were published.

1 Corporate Social and Financial Performance: A Meta-analysis

Orlitzky, M., Schmidt, F., & Rynes, S. (2003).Organization Studies , 24 (3), 403-441

The first study reviewed in this section presents a meta-analytic review of 52 primary quantitative studies of the CSP-CFP relationship (p. 404). Orlitzky's analysis provides a statistical integration of individual studies' results and corrects for statistical artifacts such as sampling and measurement errors (Ibid.). The authors argue that their methodology allows for greater precision than other forms of research reviews (Ibid.) This research *suggests that there is a positive association between corporate social/environmental performance (CSP) and corporate financial performance across industries and across different contexts* (p. 423). In other words, corporate social responsibility and, to a lesser extent, environmental responsibility are likely to have an impact on financial performance (p. 403).

[7] Quantitative research aims to identify a statistical correlation between two variables (a function of a relationship or causality between two variables). Narrative reviews, on the other hand, attempt to make sense of past findings verbally or conceptually (Orlitzky, 2003, p.410).

To construct their hypothesis, the authors consider the 'Instrumental Stakeholder theory' as a potential explanation for the positive relationship between CSP and CFP (p.405). According to this theory, "the implicit and explicit negotiation and contracting processes entailed by reciprocal, bilateral stakeholder-management relationships serve as *monitoring* and *enforcement*[8] mechanisms that prevent managers from diverging attention from broad organizational financial goals" (Hill and Jones 1992; Jones 1995 in Orlitzky, 2003, p.405). Arguably, in the context of a public institution like a university, implementing a multi-stakeholder advisory group to focus on the analysis of CSP and CFP issues can also provide monitoring and enforcement mechanisms to ensure that the institution meets its financial goals.

The authors included in their sample studies examined the relationship between environmental management and CFP. To this effect, they argued that as relevant stakeholder groups, environmental groups and government agencies help to give a voice or claim a social stake for non-human nature (Starik, 1995 in Orlitzky, 2003, p. 412). The findings also suggest that a mechanism based on profit maximization or organizational survival may offer a partial explanation of the motivation for implementing socially and environmentally responsible practices among corporations (p. 423).

The authors argue that with corporate social performance, the case for social and environmental regulation is relatively weak because organizations and their shareholders, without the need for government intervention, tend to benefit from managers' prudent analysis, evaluation and balancing of multiple constituents' preferences (p. 424). Additionally, they argue, corporate managers must learn to leverage corporate reputation and pay attention to the perceptions of third parties such as market analysts, public interest groups or the media because reputation appears to be an important mediator of the relationship between CSP and CFP (pp. 426-427).

[8] My emphasis

The authors concluded that CSP and CFP have a bidirectional causation effect through a virtuous cycle: “Financially successful companies spend more money on social and environmental initiatives because they can afford it, but CSP also helps them become a bit more successful” (p. 424). In aggregate, the study rejects the conventional neoclassical economics notion that corporate social performance is necessarily inconsistent with shareholder wealth maximization (p. 424). Instead, it suggests that corporate success encompasses both financial and social performance (Ibid.).

2 Does "sustainable" investment compromise the obligations owed by superannuation trustees?

Donald, S., & Taylor, N. (2008). Australian Business Law Review, 36 (1), 47-61

The main audience for the meta-analysis study by Donald and Taylor (2008) is the trustees of Australian superannuation funds[9]. The goal of this study is to provide an answer to the question of whether sustainable investment principles can be expected to have a positive or negative impact on the return earned by a fund over some foreseeable time horizon (p. 49). To answer this question, the authors defined ‘sustainable investment’ as an approach concerned with environmental, social and corporate governance (ESG) issues (p.47).[10] After reviewing empirical evidence of 39 academic studies, the authors *found little or no necessary effect from the application of sustainable principles* (p. 48). Specifically, the authors found 7 studies showing negative findings between ‘sustainable investment’ and financial performance, 29 studies reporting a neutral or statistically insignificant finding and 3 studies reporting a positive finding.

The authors highlighted the fact that the legal requirement of trustees to act in the best interest of the fund’s beneficiaries is universally understood to be in the financial best interest of the fund’s members (p. 47). For this reason, the financial orientation of

[9] Superannuation funds are the Australian equivalents of North American pension and retirement funds.
[10] The definition of sustainable investment is consistent with the definition of Responsible Investment used in this report.

sustainable investments aligns more closely than ethical or socially responsible investment approaches with the way the courts have traditionally articulated a trustee's obligations to its beneficiaries (p. 48). The authors cautioned, however, that an investment strategy that is poorly constructed or formulated would probably underperform (Ibid.). Therefore, the job of the trustee is to incorporate into the fund strategies that are prudent and practical given the unique needs, objectives and constraints of the fund (Ibid.).

The authors emphasized that despite the differences among studies (i.e., markets investigated, time periods observed and findings), trustees need to be alert to those differences and attempt to see the broader pattern of results rather than focus on a small subset (p. 51). The authors added: "If nothing else, the trustee's duty to exercise due care, skill and diligence requires it to be cognizant of the greater body of research before coming to a decision" (Ibid.).

The authors also cautioned against potential flaws in the arguments of those that suggest a positive performance advantage from sustainable and Responsible Investment approaches. They argued that if empirical research suggested that these investment approaches consistently outperform, it is likely that any systematic performance advantage would eventually erode, as the market would quickly impound such information in stock and bond prices (Ibid.) However, markets would continue to recognize the sustainability traits of individual stocks (p. 53). Thus, it is possible that those companies which consistently fail to disclose potential ESG risks, and instead develop a track record of negative ESG performance, would encourage investors to apply a heavier discount to the value of those companies' shares (Ibid.). On the other hand, if sustainable companies are inherently more careful about the long-term risks, make better use of their resources and are more financially stable than others in the market, that 'quality' factor must lead to premium share prices (p. 53). As these shares would be considered a 'safer' investment choice, investments in these companies would have a lower expected rate of return to shareholders (Ibid.).

The authors concluded that as long as trustees ensure that the sustainable factors they incorporate into their funds' strategies are appropriate for the circumstances of the trust and are at least financially neutral (as the weight of empirical studies suggest) they can sidestep the claims that they are in breach of their duty to act in the best interest of members (p. 57). In summary, the study by Donald and Taylor (2008) suggests that trustees can consider sustainable investment practices without necessarily compromising their fiduciary duties. In their opinion, "Careful attention to the way the strategies are formulated, implemented and monitored can address the requirement to be prudent and impartial and to act with due care, skill and diligence" (p. 57). According to this view, this opens the way for trustees to engage more actively with sustainable investing (Ibid.).

3 Shedding light on responsible investment: Approaches, returns and impacts

Mercer (2009b). Responsible Investment, London, 1-56

Mercer, the world's largest consulting firm in human resources and financial analysis (Mercer, 2009a), published in November of 2009 the third and last meta-analysis study reviewed in this section (Mercer, 2009c). Mercer's study is, in fact, the follow-up to a previous report published in 2007 in collaboration with the Asset Management Working Group of the United Nations Environment Programme Finance Initiative (UNEP FI) (Mercer, 2009b, p.1). Mercer's reports offer a comprehensive review of the academic literature examining the relationship between ESG issues and financial performance (Ibid.)

Between the 2007 and 2009 reports, Mercer has reviewed and commented on a total of 36 academic studies (p. 2). Of these studies, 20 showed evidence of a positive relationship between ESG factors and financial performance, 2 showed evidence of a neutral-positive relationship, 3 showed evidence of a negative-neutral relationship, 8 showed evidence of a neutral relationship and 3 showed evidence of a negative relationship (Ibid.).

In the 16 studies examined in its 2009 report, Mercer disaggregated its conclusions according to the different implications of environmental, social and governance factors on financial performance (p. 42).

The review of academic studies dealing with **environmental factors** suggested that: "The materiality of environmental factors varies across industries and that the financial community assigns more importance to evaluating how environmental factors affect firm value in high-environmental-risk industries than in lower-risk industries" (Ibid.).

When considering the impact of **social factors** on financial performance, studies within the sample examined issues such as racial diversity, employee satisfaction and micro-finance (Ibid.). The study concluded that the improved social performance of companies in an investment portfolio could lead to improved financial performance (p. 43).

In terms of **governance factors**, the study concluded that strong corporate governance factors, along with active engagement initiatives to promote them, have a positive impact on firm and portfolio performance (Ibid.)

Implications for university trustees

Based on the review of these meta-analysis studies and discussions held with investment professionals, the present report argues that the consideration of ESG issues does not necessarily lead to financial underperformance. Instead, prudent university trustees must exercise due care in the design and implementation of investment strategies that consider financial as well as non-financial factors in the analysis, valuation and ownership practices of their investments. It is also important that trustees ensure that the university's investment strategy incorporates a careful analysis of the particular context of the institution's endowment and pension funds. This analysis must consider, for example, the level of assets held within the fund, the current portfolio composition and the university's values and priorities.

3. UBC's efforts to implement a Responsible Investment policy

> *"Already a global sustainability leader, the University builds its international reputation by taking the lead at home: in Vancouver and the Okanagan, UBC links academic, research, and operational sustainability to become a living laboratory.*
>
> *Prudent with financial resources and mindful of its mandate to society, UBC supports those initiatives that will ensure the long-term resilience of the University and its ability to serve for generations to come."*
>
> *UBC Sustainability Commitment,*
> *The UBC Plan, 2009*

By legislation, fiduciary duty and investment responsibility for the endowment's assets ultimately rest with the UBC's Board of Governors (UBC BOG, 2008a, p. 2). As trustees of UBC, the Board is responsible for managing endowment assets and ensuring that the University has adequate resources to fulfil its mandate. In order to safeguard the reputation of the University, the Board also needs to ensure that the institution's investments are in alignment with the values that UBC seeks to create (i.e., to be prudent with financial resources and mindful of its mandate to society) (Eurosif, 2006, p.21).

In practice, however, the responsibility for managing the endowment is a complex issue and falls within the authority of several agents. In March of 2003, the University established the UBC Investment Management Trust Inc. (UBC IMANT) as a wholly owned subsidiary of UBC (UBC, 2007a, p. 16). UBC IMANT acts as a manager of over 30 investment firms from around the world who invest endowment assets on behalf of the University (Ibid., p.20). The majority of endowment investments are allocated in pooled funds in which the University holds units instead of individual securities.

UBC IMANT through its Board of Directors is considered a committee accountable to the University's Board of Governors (Ibid).[11] As trustee of UBC's investments, IMANT has responsibility for exercising voting rights associated with the University's investments. Voting responsibility, however, is often delegated to the University's investment managers who retain control of voting rights of shares held within pooled funds (Ibid.).

Table 3. RI approach to pooled funds' investments

Proxy voting in a pooled fund
Because smaller pensions plans or (university) endowments often invest through pooled funds, they may find themselves with more limited proxy voting options. Investors in pooled funds generally cannot direct the voting of proxies.
However, they can try to negotiate an arrangement to permit the voting of a proportionate number of the pooled fund's proxies according to individual fund guidelines.
In the least, funds in this situation should advise investment managers of their voting preferences and request a voting report on how the pooled fund's share are voted.

Source: (SHARE, 2008, p. 10)

In reality, UBC has taken considerable steps towards enhancing the governance and transparency of its investment practices. For example, in the 1980s the UBC endowment adopted a divestment policy of holdings of certain companies perceived to advance the apartheid regime in South Africa (UBC, 2007a, p. 20). Additionally, the University administrators and their agents for some time have been working to acquire a wider understanding of financial and non- financial issues affecting the University's investments. This is mainly accomplished through the commission of studies such as the present report and by assessing the level of understanding of ESG issues of the managers that the University hires to invest the endowment and pension funds (Ibid.) (see Table 4).

[11] Section 6 of this report (Stakeholder analysis) explains in greater detail the composition of UBC IMANT'S Board of Directors and its potential role in the development of UBC's RI policy.

Table 4. Current approaches to RI at UBC

"On a comparative basis, new investment managers are interviewed to understand their approach and values in making investments on behalf of the Endowment Fund. As well, managers are asked about their understanding of the social, ecological and economic consequences of their investment decisions. The University's investment managers believe that for a company to be financially successful in the long term, management must engage in sustainable and sound business practices. Sustainable business practices include giving appropriate consideration and balance to environmental issues, labour practices, health and safety standards, the rule of law and individual and property rights. The University takes the perspective that an effective way to positively impact corporate governance and business practices is via engagement as opposed to boycott. Our investment managers, through their stewardship of large collective holdings of public companies, can more effectively influence corporate behaviour than can an individual endowment fund."

Source: *(UBC, 2007a, p. 20)*

In the fall of 2007, the UBC Board of Governors identified a need to obtain formal and ongoing advice with respect to issues normally referenced within the framework of Responsible Investing (UBC BOG, 2008a, p.1). As the custodian of the University's investments, the UBC Treasury Department assumed the responsibility to lead the institutional efforts to develop an RI Policy. In April of 2008, the former Associate VP of Treasury, with the approval of UBC President Stephen Toope, presented to the Board of Governors a draft of the Terms of Reference (TOR) that would guide the formation of the UBC Responsible Investment Advisory Committee (Ibid). In a meeting held on April 10, 2008, the Board of Governors approved the submission presented and recommended the creation of a Responsible Investment Advisory Committee at UBC (UBC BOG, 2008b, p. 8).

According to the drafted TOR, in the case of UBC, the consideration of RI issues for the investment of endowment assets covers three areas (UBC BOG, 2008a, p.3; UBC, 2007a, p. 20):

a) assessing the level of awareness that investment managers have about the social, ecological and economic consequences of their investment decisions;

b) ensuring transparency regarding endowment holdings; and
c) exercising voting rights on endowment investments.

In order to appropriately consider these issues, the Board recommended creating an advisory committee as a mechanism for engaging a diverse range of viewpoints and stakeholders regarding the University's investment practices (UBC BOG, 2008a, p.2). Specifically, the expressed purposes of the advisory committee were to:

a) monitor and report to the UBC BOG on industry and university trends regarding RI issues and the investment of UBC's endowment assets;
b) interface with groups and individuals with a relevant interest in the University's investment practice; and
c) report annually to the BOG a high-level overview of its activities, topical RI issues, the endowment's position on these issues and the voting practice of the endowment's investment counsellors.

The impact of the global economic crisis of 2008 on the financial value of the University's investments created significant barriers to following through with the UBC BOG's recommendation to form an RI Committee. In the second half of 2008 key stakeholders responsible for the creation of the RI Advisory committee, Terry Sumner, former UBC's VP of Administration and Finance and Byron Braley, Associate VP of Treasury, left the University. Then, the introduction of a policy to reduce the endowment-spending rate from 5% to 3.5%, and the uncertainties regarding future expectations on investment returns, led to an interruption of the University's efforts to implement an RI policy. While the University has not put together an RI advisory group, the UBC Treasury has made an effort to familiarize itself with RI, by commissioning several studies by this author.

While the development of an RI strategy has been a slow process, there has been a growing public expectation that UBC would implement a comprehensive RI policy and convene an advisory group. In the fall of 2008, a comparative survey of the largest colleges and universities in North America documented UBC's commitment to the formation of a multi-stakeholder advisory body (SEI, 2008b). Then, as a result of an increasingly positive public perception about UBC's progress in the implementation of RI policies, UBC Treasurer Peter Smailes received an invitation to speak at the annual conference of the Canadian Association of University's Business Officers (CAUBO) in Ottawa in June of 2009. The conference featured a panel presentation focusing on the recent experience of Canadian universities implementing socially and environmentally responsible investment policies. The session was well attended by universities represented at the conference (Smailes, 2009). By and large, Canadian university administrators have little experience with RI and the session provided an opportunity to identify potential solutions and approaches to address this issue (Ibid.).

For the most part, Canadian universities have been reluctant to incorporate RI practices into the management of their endowments and pension fund investments. There is a prevalent perception among university administrators that investors have to sacrifice investment returns as a result of incorporating RI (Mercer, 2009b); Smailes, 2009). A positive outcome of the RI session of the CAUBO conference in 2009 was the recognition that if Canadian universities come together to develop a national approach to RI, they can address growing pressures to adopt investment practices that may not be in the best interest of endowments (Ibid).

To address these issues, the present report calls on CAUBO to coordinate further research to monitor and report to its members on industry and university trends regarding RI issues and the investment of endowment assets. This initiative could help to document the Canadian context and priorities of CAUBO's members regarding ESG risks and opportunities. This analysis could also be useful to develop and share RI best practices among participating institutions.

Drafted Terms of Reference for UBC's RI Advisory Committee

The existing terms of reference (TOR) for UBC's RI advisory committee stipulate that it is the UBC's Board of Governors responsibility to ensure alignment between the University's values and the conduct of those corporations and other entities in which the endowment is invested (UBC BOG, 2008a, p. 3). Through the analysis and recommendations of ESG issues, the UBC RI Advisory Committee can assist the University trustees in fulfilling this responsibility. To reduce the risk of making investments that do not comply with the University's RI values, and thereby increase investment risk, the RI Advisory Committee should be more diversified across areas of expertise and stakeholder interests. Additionally, it should allocate responsibility and decision-making across more committee members.

The TOR draft, presented to the Board in April of 2008, stipulated that the RI Committee would consist of a maximum of 13 members approved by UBC's Board of Governors to represent constituencies with a relevant interest in the endowment (see Table 5) (Ibid.). These groups certainly embody a broad spectrum of the University's constituents. However, in order to be effective, the RI advisory committee should also consider the perspective of the UBC Board of Governors, the Board of Directors of UBC IMANT and the University's alumni.

Table 5. UBC RI committee composition

At a minimum appointees from the following groups will comprise the committee (minimum of representatives for specified groups in parentesis):
- Treasury (AVP Treasury to serve as chair person, ex officio) - Development Office - UBC IMANT - UBC Vancouver & UBC Okanagan Students (3) - Faculty (2) - Staff (2) - Investment Industry - Emerity Faculty
*Also recommended: UBC BOG, UBC IMANT's Board of Directors & UBC Alumni

Source: Adapted from (UBC BOG, 2008a, p. 3)

Table 6. Current RI committee members' selection process

The Vice President of Administration and Finance is responsible for identifying suitable candidates, assessing qualifications of potential committee representatives, and ensuring that they are willing to serve on the RI Committee under the conditions outlined.

Source: (UBC BOG, 2008a, p. 4)

The proposed selection process for members of the UBC RI Committee raises a potential conflict of interest, because a single person (UBC's VP of Administration and Finance), responsible for supervising the proposed committee's chair (AVP of Treasury), would also be responsible for identifying and recruiting members of an ideally diverse and independent body (see Table 6).

In order to build legitimacy into the formation of multi-stakeholder groups, many schools have created mechanisms by which each group elects their own representatives. In practical terms, however, implementing an RI framework may require the use of an incremental approach (see Table 7). While the election of RI committee members by their own constituencies at UBC would help legitimize the committee, it would require a considerable effort. It seems sensible in the short term to recruit individuals with an expressed interest in Responsible Investment issues to work together in the development of the University's RI strategy.

For the committee to be successful, the chair, as well as other committee members must devote a considerable amount of time and effort to analyzing complex investment issues. For this reason, it is recommended that a representative of UBC's staff or faculty be appointed as the committee's chair. A member of UBC's faculty with a relevant academic interest in investments and corporate social responsibility issues could also help to coordinate and supervise academic research required for the committee's deliberations. It is recommended that the University allocate adequate financial resources to hire a paid staff person responsible for coordinating risk management efforts along with the activities of the RI advisory committee.

Table 7. UT's incremental approach to developing an RI advisory group

UT's approach to developing an RI committee
UT followed an incremental approach to establishing its RI committee. First, different student groups, which had done a great deal of background research on RI, approached the Office of the President a.(A. Gray, personal communication, June 3, 2009; R. Goel, personal communication, June 24, 2009).
During a couple of meetings with the University's administration, students made a strong case for incorporating RI practices to consider issues that could affect the University's investments (Ibid.). The President then made a decision to form a working group between the students already advocating for RI and staff from the University to start addressing RI issues (Ibid.).
The role of this committee was to draft terms of reference for a formalized RI Committee. The official RI Committee emerged only after students and administrators reached a consensus regarding the best approach for the development of the University's RI practices (Ibid.).
The RI committee as an advisory body to the trustees of UT will provide recommendations to aid in financial decision-making. UT sees the RI committee as an extension of the University's mandate and as a space for dialogue and freedom of thought (Ibid.).
Over the next few months, UT's RI committee will canvass the university's constituents to identify areas of priority regarding the University's investments. Then, the RI committee will create subcommittees to do further research on those issues and to engage the existing expertise of students and faculty within the University to address those concerns.

It is recommended that UBC follow a similar approach to UT and, more importantly, revise the existing TOR to strengthen its legitimacy and endorse an increasingly comprehensive analysis of the University's investments. Currently, the drafted TOR do not make any provisions for promoting gender equality or for the representation of visible minorities within the RI committee membership. For the committee to be more effective, it needs to engage a diverse range of views and perspectives of the University's constituencies. Diverse representation and transparency are important to ensure that committee members remain accountable to the University (Weber, 2009). Through these actions and through the engagement of knowledgeable participants, the UBC RI Committee can assist the University's administrators in identifying emerging ESG risks and taking actions to minimize those risks. These actions can also help to meet the university's sustainability commitment to be prudent with its financial resources and mindful of its mandate to society and its ability to serve for generations to come (UBC, 2009b).

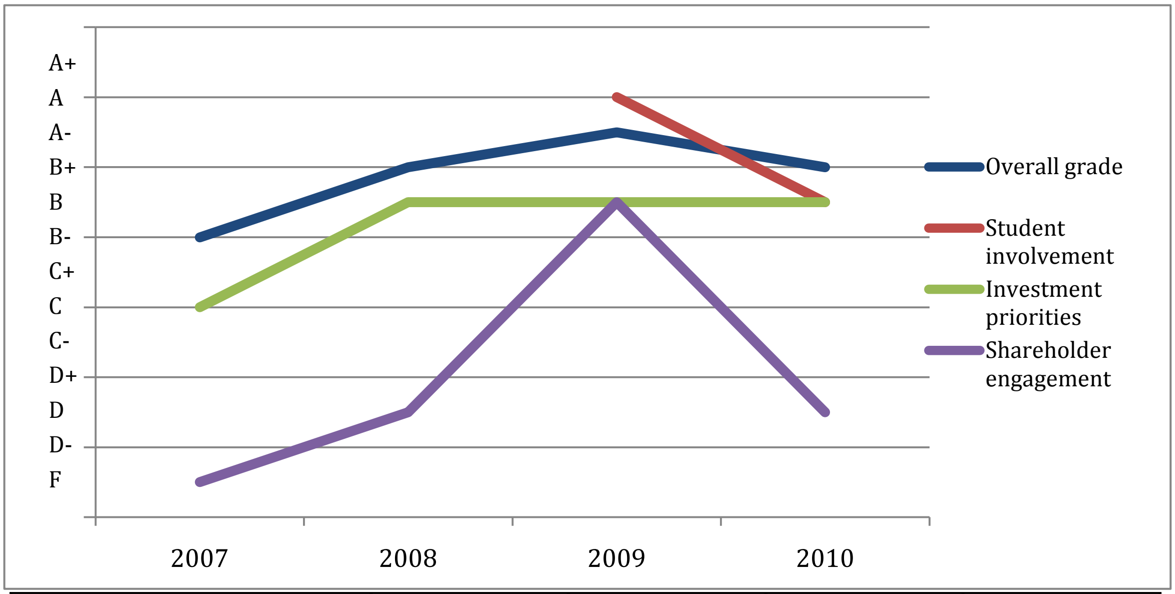
4. UBC's performance in the Sustainable Endowments Institute's College Sustainability Report Card

UBC has built a reputation as an institution deeply committed to developing a culture of economic, social and ecological sustainability. Over the last couple of decades, UBC has implemented a series of policies and commitments to incorporate social justice and environmental sustainability issues into its curricula and its campus operations. A pioneer in campus sustainability, UBC opened the first Canadian sustainability office in 1998 (UBC SO, 2008) and developed the first campus-wide sustainability strategy in 2006 (UBC SO, 2007). In recent years, however, UBC's institutional sustainability rating has been in decline and could threaten UBC's reputation as a campus sustainability leader.

Every year, the Sustainable Endowments Institute (SEI) examines the largest colleges and universities in North America through the lens of sustainability (SEI, 2008a). The goal of the SEI's College Sustainability Report Card (CSRC) ratings is to encourage sustainability as a priority in college operations and endowment investment practices (Ibid.) As an independent annual report, UBC's rating in the SEI's College Sustainability Report Card (CSRC) might serve as an appropriate indicator by which one might judge the success of UBC's institutional sustainability achievements.

The scorecard evaluates universities according to several categories; however, those that are most relevant to RI investment practices are: Student Involvement, Endowment Transparency, Investment Priorities and Shareholder Engagement. The category of Shareholder Engagement, in particular, has consistently been UBC's lowest score in the four editions of the SEI's study (See Figure 1).

Figure 1. UBC Performance in the Sustainable Endowments Institute's College Sustainability Report Card



	2007	2008	2009	2010
Overall grade	B-	B+	A-	B+
Student involvement	--	--	A	B
Endowment transparency	F	A	A	A
Investment priorities	C	B	B	B
Shareholder engagement	F	D	B	D

Note. Years in the graph above correspond to the names of the annual edition of the CSRC; however, the results correspond to Universities' operations in the previous year (i.e., the 2010 CSRC was published in 2009).

The Student Involvement category evaluates student participation in sustainability initiatives and support for these activities by school administrators (Ibid.). Universities are awarded points in the Endowment Transparency category for providing proxy voting records and lists of investment holdings to the campus community or a wider audience, and for the ease with which they make this information available (Ibid.). The Investment Priorities category focuses on three areas: prioritizing return on investment, investing in renewable energy funds, and investing in community development loan funds (Ibid.). Finally, universities receive points in the Shareholder Engagement category depending on their proxy voting practices and the implementation of RI advisory committees that engage the university community in research and discussion of corporate policies, investment responsibility and sustainability (Ibid.).

UBC's best overall ranking in the CSRC was in 2008, obtaining a score of A- and the designation of "Campus Sustainability Leader"; a distinction given to the 15 institutions to score that high (SEI, 2008b). UBC obtained an A in the category of Endowment Transparency policies, a B in Investment Priorities and a B for its efforts in the area of Shareholder Engagement practices. Some of the reasons given for the high ratings in these categories were: the monthly update of endowment holdings on the University's website; public access to proxy voting records through the University's investment office; *and the creation of an advisory committee on socially responsible investing comprised of faculty, staff, students, and alumni members*[12] (Ibid.). The improved ratings obtained by UBC in 2008 confirmed that efforts to create an RI advisory committee were recognized as a positive approach to develop a broad RI strategy.

However, in the following edition of the CSRC (published in 2009), UBC's overall scores decreased from A- in the previous year to a B+ (SEI, 2009). UBC's performance in the Endowment Transparency and in the Investment Priorities categories have remained constant over the last three years with an A, A and B, respectively. The scores awarded in the latter category corresponded to the University's investments in funds that comprise the renewable energy sector (Ibid.). Notably, the D score in the Shareholder Engagement category awarded to UBC in the latest CSRC acknowledges the unfulfilled commitment of the University's administration to establish a multi-stakeholder RI advisory group.

UBC ranking and its reputation

Universities do well to care about their reputation. University administrators have to learn to pay more attention to the perceptions of third parties such as market analysts, public interest groups, donors and the media. If a university is perceived to be acting contrary to its institutional values, it might harm its ability to attract new endowment

[12] My emphasis

funds (P. Chapman, personal communication, August 4, 2009; Smailes, 2009). Universities might find that their consideration of the social and ecological impact of their investments is relevant to their ability to recruit students, faculty and staff. Similarly, corporations have also found that their consideration of social responsibility issues is meaningful to their ability to recruit new employees (Ibid.).

Ortlizky et al (2003) also found that corporate reputation indices' scores are more highly correlated with financial performance than any indicator of social responsibility. Perception, for example, in relation to credit worthiness can be material to increases in the capital costs of an institution. This means that investors would be likely to apply interest premiums for the issuance of debt of institutions that the marketplace perceives to be riskier. A worthwhile question for future research is: Does the University's reputation, its ability to consistently recruit students and the perception of credit rating agencies have a material impact on the capital raising costs of the University and its overall financial performance? And in today's more socially responsible environment, to what extent do ESG policies and practices affect the University's reputation and its ability to attract new donations?

For the sake of remaining relevant and competitive among its peers, UBC needs to implement appropriate mechanisms to strengthen its institutional practices. Similarly, in order to improve the University's performance in the CSRC's Investment Priorities category, the University needs to adopt a more proactive approach and go beyond "considering" investments in renewable energy and community development funds. UBC will be required to identify investment instruments with the potential of providing solid financial returns while addressing serious environmental and social needs. The university could also explore revenue-generating projects within the Vancouver and Okanagan campuses. Given the considerable scale of the University's operations, it could be feasible, for example, to develop sustainable energy-producing projects using biomass or geothermal sources. While these types of projects imply a considerable initial capital expenditure, the University could reap the long-term benefits of decreased energy costs and offset looming taxes on its carbon emissions. These kinds of projects would also be in line with UBC's sustainability commitments to link academic research and operational sustainability to become a living laboratory.

As an alternative, financial markets currently offer several products that help investors fulfil dual goals of providing adequate financial returns while addressing environmental and social issues. Given the considerable amount of resources endowed to universities, they have an opportunity to play a more proactive approach in allocating capital to the solution of problems that neither government nor markets are willing or able to solve. Many universities are demonstrating a strong interest in community investing as a way to improve their relationship with the communities that host them and to attract gifts from environmentally and socially minded donors (Weber, 2009).

By and large, universities follow their peers. Therefore, it is possible that in a similar way that several North American universities followed the 'Manager of Managers' approach pioneered by Yale and Harvard (Church & McFarland, 2009; Denmark & Segal, 2009), they will also emulate current efforts to incorporate RI frameworks to better understand investment risks and opportunities. While Canadian universities have made some marginal efforts to accomplish this, there is still a long way to go to better understand potential strategies and impacts of RI (Smailes, 2009; Strandberg & Martin, 2009).

UBC currently has an opportunity to build on its previous accomplishments as a campus sustainability leader as well as the considerable body of research that this project has generated to develop an appropriate RI strategy. Given the emerging importance of RI among Canadian universities — as with the implementation of Queen's University's RI policy and UT's RI advisory group — it is only a matter of time before external and internal pressure forces UBC and its peers to engage in a conscientious manner regarding sustainable and responsible investment issues.

In order to be successful and achieve economies of scale, it is recommended that UBC participate in investor coalition efforts. Particularly, the University should advocate that in the context of CAUBO's membership, Canadian universities come together to develop a Responsible Investment Coalition. At the same time, the University should participate in the United Nations Principles for Responsible Investment and the Responsible Endowments Coalition.

5. Responsible Investment among universities[13]

A commonly held notion among proponents of RI practices is that the active assessment of risks and opportunities arising from ESG factors positively affects long-term investment returns (UN PRI), 2009). Incorporating consideration of ESG issues can also serve as a tool to enhance financial analysis and risk management practices. To do this, RI efforts must focus on the analysis of ESG issues affecting the valuation of investments, choice of assets and ownership practices (Krosinsky et al., 2008, p. xxii; Fox Gorte, 2008; Kronsinsky, personal communication, August 20, 2009). Strengthening legal and governance structures to support ESG objectives can help integrate these RI considerations into a university's risk management and investment decisions.

ESG analysis frameworks aim to identify and address investment risks that can range from costs associated with environmental degradation or climate change, to dealing with the impacts of poor corporate governance or fraud. For instance, as the need to deal with the effects of climate change increase and more stringent regulations are enacted, companies that fail to curb their greenhouse gas emissions will eventually have to face fines, pay the cost of replacing obsolete technologies and address the negative public image of a polluting enterprise (Lucas-Leclin & Nahal, 2008, p. 49). Exposure to these risks has the potential to lessen a company's profits and shrink its market share (Ibid.).

[13] To see a sample of RI best practices and an explanation of the "business case" for adopting RI, refer to the attached report: "Responsible Investment Practices Among Universities" by Omar Dominguez. This paper was presented at the 2nd *Academic Conference of the UN PRI* in Ottawa on October 2, 2009.

ESG integration and fiduciary responsibility to manage risk

Overall, there is a growing recognition that adopting RI practices is within the fiduciary duties of university administrators (Chapman, 2009; De Schepper, personal communication, August 26, 2009; Freshfields Bruckhaus Deringer LLP, 2005; Goel, 2009; Krosinsky, 2009; Tagger, 2009; Talbot, 2006 Weber, 2009). To reduce risks related to ESG factors, universities and their trustees should develop and strengthen the supporting legal framework by placing more emphasis on fiduciary responsibilities in the context of RI strategies. Several studies also suggest that there is a positive relation between corporate social/environmental performance and corporate financial performance (Orlitzky, 2003). Additionally, research suggests that, when formulated appropriately, investment strategies based on the consideration of ESG issues do not necessarily lead to financial underperformance (Donald, 2008; Mercer, 2009b).

The Freshfields' report, a study sponsored by the United Nations Environment Programme Finance Initiative (UNEP FI), is often noted for making an authoritative argument for the legality of considering ESG issues in investment decisions (Responsible Investment Working Group, 2006, p. 12; Viederman, 2008, p. 190; UNEP FI, 2009). The Freshfields' report recognizes that the definitions of moral and legal standards of behaviour are in constant evolution (Freshfields Bruckhaus Deringer LLP, 2005, p. 19). As corporate and investment systems have become more complex, the laws that govern the duties of fiduciaries have also evolved over time (see Table 8). For example, as there is more evidence that anthropocentric impacts on climate change and the diminishing stock of natural resources around the world have the potential to inflict harmful consequences on a global scale, responsible fiduciaries are those that examine the risks of environmental and social issues on the material long-term value of assets under their control (Goel, 2009).

Table 8. Expert advice on the evolving nature of fiduciary duties

The Evolution of Fiduciary Duty
'Fiduciary duties are duties that common law jurisdictions impose upon a person who undertakes to exercise some discretionary power in the interests of another person in circumstances that give rise to a relationship of trust and confidence. The circumstances in which fiduciary duties will apply are not fixed because they are a product of case law rather than statute, but courts in the common law jurisdictions discussed in this report have all held that a principal exercising the role of 'trustee' will owe fiduciary duties to beneficiaries under the trust.' Freshfields' Report (Freshfields Bruckhaus Deringer LLP, 2005, p. 19)
'The definition of prudence and trustee responsibility that governs our understanding of fiduciary responsibility has evolved over time. As more evidence unfolds supporting the connection between sustainability and financial performance, those who do not consider these factors in investment decisions could ultimately leave themselves open to charges of imprudence.' The Prudent Trustee (Emerson & Little, 2005, p. 2)
'Some people argue that the current 'short-termism', the failure to acknowledge some of the major environmental damage being done by current investment practice breaches trustees' duties to be even-handed to the different generations of beneficiaries.' Peter Chapman, Executive Director, SHARE, 2009
'As financial transactions and investment vehicles become more specialized and complex, fiduciary duty must expand to encompass our greater knowledge and understanding of the long-term social and environmental costs, as well as the benefits associated with investment decisions. Risks and opportunities must be assessed more prudently in the context of climate change. This includes the science and economics of climate risk, and also the political processes nationally and globally that will affect investment decisions.' Stephen Viederman (2008, p. 192)
'The concept [of fiduciary duty] is different depending on the jurisdiction. However, the main idea amongst all analysts and jurisdictions is that when you are acting as a fiduciary, when you are investing someone else's money, you have to act as a prudent person would. Historically, some people have interpreted that as meaning that 'you can only have regard for financial considerations'. More recently, and in a sense not really new, just posing it differently, is that anything that is material to financial performance should always be taken in consideration.' Ran Goel, Associate, Sidley Austin LLP, 2009

Diversified RI committee structure as a risk management tool

Generally, RI best practices among universities call for the engagement of a broad representation of the institution's constituents' views, values and priorities and aim to reflect these ESG perspectives in financial decision-making. RI advisory committees also provide a mechanism for a university's trustees to interface with groups or individuals who wish to express concerns regarding the university's investments. Given the traditional legal structure of a university's government, it is not feasible to expect that an RI committee can become a mechanism for the institution's constituents to make final investment decisions. Instead, RI can open a forum for dialogue and debate about the university's proper role in addressing corporate harm (Gray, 2009) and in the provision of much-needed capital to address some of society's most pressing challenges. For this reason, RI can further the university's educational and social mandates (Ibid.; Weber, 2009).

As institutional investors with a significant amount of resources and immediate access to technical expertise, colleges and universities also have an opportunity to address potential negative impacts on their investment returns arising from corporate harm issues and poor management practices (SEI, 2007). To do this, academic institutions, working as coalitions of RI committees, have an opportunity to influence and vote on shareholder resolutions in the companies in which they invest (Ibid.).

Voting on shareholder resolutions represents an enhanced form of civic participation in the formulation of corporate and institutional policy and practices. When a university-based RI committee engages with the management of a corporation to address social or environmental concerns, it can provide new opportunities to affect social change through channels previously inaccessible to students, members of visible minorities and unionized university employees. The experience of participating in an RI advisory group provides a unique opportunity for these individuals to learn while also ensuring that the views of various constituencies are reflected in complex decisions about corporate practice and capital asset allocations of colleges and universities.

RI frameworks are often implemented among universities through a 'double committee structure' (Responsible Investment Working Group, 2006, p. 17; REC, 2007, p. 21). The first committee is commonly comprised of university trustees who have the ultimate responsibility for financial decision-making (Ibid.) The second committee is typically an advisory body to the trustees, with multiple representatives from the university community (students, faculty, administrative staff, alumni, etc.) (Ibid,). In the case of UT, as well as other universities with an RI committee, the legal responsibility for financial decisions and endowment management continues to rest within the university's board of trustees (Gray, 2009). However, each university grants its advisory group specific mandates and attributions appropriate to its institutional context. Generally, the committee's role is advisory instead of policymaking. However, it would soon emerge to be problematic for university trustees to ignore stakeholders' input and recommendations resulting from the systematic analysis of ESG investment risks and opportunities (Ibid.).

Challenges to RI implementation among universities

Responsible Investment initiatives among colleges and universities are largely initiated through student mobilization. However, one of the greatest challenges to the widespread implementation of RI among universities is that the continuity of student advocacy efforts is inconsistent due to the transient nature of their association with their universities (Chapman, 2009; Goel, 2009; Weber, 2009). Given the complexity of investing, developing knowledgeable notions about RI practices takes considerable time. Students often graduate before they can significantly engage the university's trustees and their agents in discussions aimed to influence the methods by which millions of dollars of institutional assets are invested.

While there are increasing efforts to implement RI practices among universities, up until now, academic institutions have been reluctant to formally implement these investment frameworks. As indicated above, this situation largely stems from a frequently held perception that having an RI framework reduces the investment universe available to administrators, may increase volatility and, most importantly, result in lower endowment returns (Smailes, 2009). This is an important consideration for universities' trustees as they have both a legal and moral obligation to protect the university's reputation and ensure that their institutions have adequate resources to fulfil their mandate.

It has become clear that university trustees need to understand the implications and risks associated with the adoption of RI policies. University administrators need to develop a more systematic understanding of emerging RI issues (Smailes, 2009) in order to be prepared to respond to the growing pressure for adopting these investment approaches (Strandberg & Martin, 2009). However, university administrators engaged in these processes often find that their institutions have so far lacked the necessary information to answer key questions raised when considering the methods and effects of RI (Ibid.). In order to answer these questions, the UBC Treasury has commissioned the present research to identify emerging industry and university trends regarding RI issues and the investment of assets endowed to universities. However, findings of this research are that more studies and resources are needed to address these gaps.

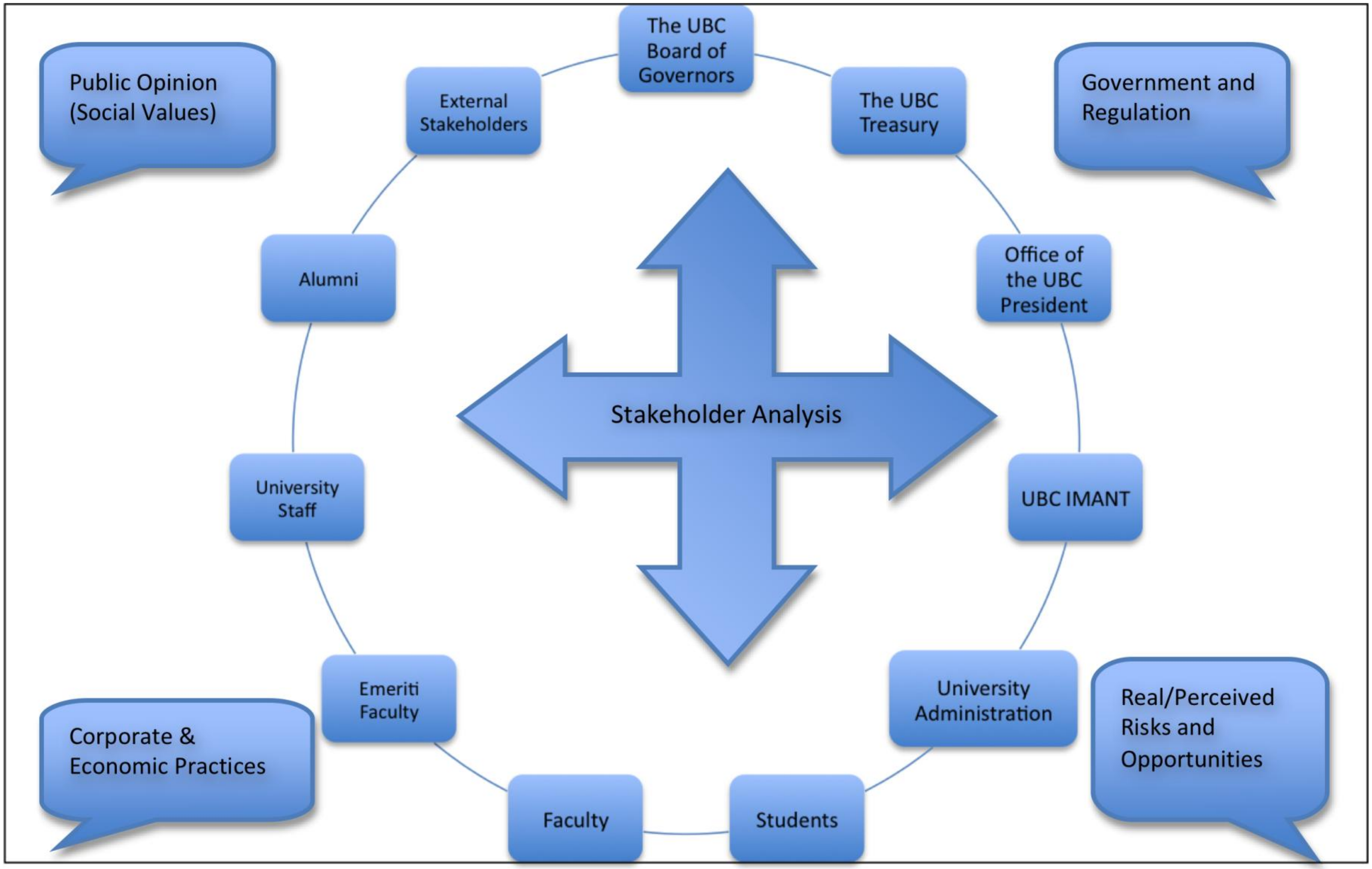


Figure 2. Stakeholder Analysis - UBC

6. Stakeholder analysis

Stakeholder analysis is a technique to identify and assess the importance of key people, groups of people, or institutions that may significantly influence the success of a planning process. It is appropriate to make this analysis in the context of the present report in order to identify relevant individuals that could help to develop UBC's RI policy (see Figure 2). The stakeholder analysis can also help to identify the diversity of views and interests for and against RI. This analysis is necessary to ensure that all pertinent positions are represented and to better address a diversity of stakeholders' concerns in the development of RI policy. Importantly, this diversity of perspectives serves as a key risk analysis and management tool by providing a more comprehensive assessment of ESG risks and opportunities.

The UBC Board of Governors

The Board of Governors (BOG), as the trustees of UBC, is the body legally responsible for financial decision-making at the University. The University's trustees and their agents have a fiduciary duty to act in the best interest of UBC and make decisions on increasingly complex and interrelated systems (e.g., academic, financial and operational). In recognition of this increasing complexity, in the fall of 2007, the UBC BOG consented to the creation of UBC's RI Committee to provide recommendations on investment issues affecting the University.

An advisory committee focusing on Responsible Investment issues could help the UBC BOG examine emerging investment risks and opportunities associated with ESG factors. The advisory committee can also help to assess the potential impact of non-financial issues on the long-term financial value of endowment assets and pension funds.

To develop a successful RI strategy, it is important to include members of the BOG in the RI Committee. A BOG representative on the RI advisory committee would create a link between the issues addressed by the RI advisory committee and the operational needs faced by the University's trustees.

The UBC Treasury

As the custodian of the University's assets, the UBC Treasury is responsible for the University's investments, including the development and implementation of an RI strategy. Under the direction of the former Associate Vice President of Finance, Mr. Byron Braley, the department inherited in the fall of 2007 the task of implementing the UBC BOG's recommendation to establish an RI advisory committee.

Since the restructuring of the UBC Treasury Department in the second half of 2008, the UBC Treasurer, Mr. Peter Smailes, has commissioned several studies to develop a better understanding about the implications of incorporating environmental, social, and governance factors into financial decision-making. Working under his direction, I scanned existing literature and interviewed university administrators and investment professionals from across North America to identify emerging RI trends and priorities among Canadian universities and produced a number of reports culminating in this one.[14]

Office of the UBC President

[14] These interviews revealed a strong demand for RI information and educational resources among university administrators. Up until now, there has been little academic research examining Responsible Investment approaches by academic institutions. The research commissioned by the UBC Treasury Department also identified a growing interest in building a Canadian taskforce to further examine socially and environmentally Responsible Investment approaches (Please refer to the attached appendices for the findings of this research. Particularly, appendix D: "Responsible Investment Practices Among Universities" provides a clear description of current practices, emerging priorities and important considerations for the implementation of RI).

According to the British Columbia University Act, UBC's president has the power to establish committees that he considers to be necessary or advisable (UBC President's Office, 2009). The experience of UT suggests that engaging the president's input and support may be essential to develop an effective Responsible Investment policy. However, up to this point, the President's Office has not been directly involved with the development of the RI strategy.

During the past 18 months, the President's Office conducted a comprehensive strategic planning process and an extensive community consultation to renew UBC's vision, mission and goals (UBC, 2009b). On December 2, UBC President Stephen J. Toope launched the revised strategic plan emerging from this process: "Place and Promise: The UBC Plan" (Ibid.).

Strategic planning efforts to this date have focused on developing high-level visioning statements on the vision, values, commitments, goals and actions that will set the general direction for the University over the next few years. There are three main components within the structure of the new strategy: the plan makes a strong link between institutional priorities and budgetary decisions; includes a set of goals and actions for each faculty, unit and department; and includes mid-level strategic plans to fulfil each commitment (Ibid.).

Within the Plan's sustainability commitment, UBC pledges *to explore and exemplify all aspects of economic, environmental and social sustainability* (Ibid.). Therefore, issues relating to the management of the University's investments fall within the University's commitment to sustainability. Certainly, the RI advisory committee can be a valuable tool to operationalize the University's ongoing commitment to sustainability. The RI advisory committee can help UBC to address both financial and reputational risks that currently are not appropriately examined through conventional financial analysis practices.

UBC IMANT

UBC IMANT as the University's investment unit is an essential stakeholder in the formulation of all investment policies. With the adoption of an RI policy, UBC IMANT would be responsible for feeding relevant financial information to the RI committee, and in the case that the BOG decides to follow through with any of the committee's recommendations, UBC IMANT would be responsible for its implementation.

While designing a Responsible Investment strategy, it will also be important to create a link between the RI committee and UBC'S IMANT Board of Directors. IMANT's board comprises appointees from the business community, investment industry, the UBC Board of Governors and senior UBC staff (UBC, 2007a, p. 16). IMANT's board is also considered a supporting committee to the UBC BOG (Ibid.). As UBC's RI practices evolve, the University should address the relationship between IMANT's Board of Directors and the RI committee so that there is no duplication of efforts.

The implementation of an RI strategy is certainly a sensitive and potentially contentious issue. UBC IMANT's personnel, like those in similar roles at other institutions, may have reservations regarding the impact that this framework will have on their operations. However, the work of the RI committee, through the engagement of a high level of expertise from the UBC constituencies, can provide an additional tool to strengthen the financial analysis of UBC IMANT and may lead to the recognition of a need to increase the diversity of perspectives represented on IMANT'S Board of Directors.

University administration

The University administration includes all individuals and departments responsible for managing the University's resources. It includes, for example, administrators of academic departments needed to link budget allocations to educational priorities. The

UBC administration also includes the managers of units that support the University's day-to-day operations.

Input and participation of the UBC administration in the development of the University's RI practices can be helpful in highlighting the potential impacts of ESG issues on future capital allocations required to fulfill the University's mandate. The University Administration's participation in a Responsible Investment strategy can also help to leverage the expertise of various departments within UBC.

For example, the present report argues that the notion of economic, environmental and social sustainability should be at the core of UBC's depiction of Responsible Investment practices. Therefore, it is recommended that the University's Sustainability Office participate in the development of a Responsible Investment strategy given its expertise in helping to ensure that these notions are considered at an institutional level. The evolution of the sustainability strategy at UBC can, in fact, serve as a useful case study to consider in the development of the University's RI strategy.

Table 9. UBC Sustainability as a model for developing an RI Strategy

UBC Sustainability Office
Over the last two decades, UBC's administration has built a reputation for implementing innovative programmes to advance sustainability within the curricula and the institutional practices of the University. When the UBC Sustainability Office (SO) developed the first Canadian University campus-wide sustainability strategy, it consulted over 20 departments, all faculties, and major student organizations, as well as several individuals. (UBC SO, 2007, p.17) The SO works towards systematically institutionalizing sustainability in every aspect of campus life (ibid., p. 16). The SO aims to develop "an environmentally responsible campus that is economically viable and reflects the values of campus community members" (UBC SO, 2008).

The drafted TOR for the RI Committee mentioned the UBC Development Office (UBC DO) as a specific stakeholder in the development of the University's RI strategy. As the fundraising unit of the University, the UBC DO constantly engages with external stakeholders to solicit contributions on behalf of UBC. Arguably, an RI approach could help the fundraising efforts by reassuring donors that UBC will manage their gifts in a socially and environmentally responsible way and with careful consideration of potential negative impacts arising from the University's investment practices.

Additionally, the University should create opportunities to engage the input of all other academic and operational departments that receive funds from endowment investments. In engaging this input, it will be important to ensure that a wide range of viewpoints are reflected in the development of the University's RI practices, as well as in the analysis and recommendations of the RI committee. These recommendations must also assess the input of individuals who are skeptical about RI and who are concerned about the potential impact that this approach may have on investment returns.

Students

Students are often major stakeholders in the development of RI practices among academic institutions. In many cases, students do the bulk of the research necessary for the analysis of ESG issues (Weber, 2009). Then, the rest of the committee members (staff and faculty with little time to spare) provide feedback and build upon students' work (Ibid.).

RI practice has evolved from initial approaches to divest from companies or industries with questionable corporate practices to a more active engagement approach to positively affect corporate behaviour. Grassroots student initiatives at UBC also have a long tradition of activism that seeks to influence the University's operations and advocate for the consideration of the institution's responsibility over broader environmental and social issues. For example, student mobilization in the 1980's resulted in the divestment of UBC holdings of company stocks that were perceived to support the apartheid regime in South Africa (UBC, 2007a, p. 20).

Previous student representatives within the UBC BOG have also advocated for the adoption of a university-wide RI policy and for the decision to establish an advisory group to focus on the analysis of ESG issues. Jeff Friedrich, former Alma Mater Society (AMS) President and BOG Student Representative, initially recruited me to conduct a background study of investment practices at UBC. The objective of this research was to develop informational materials to help prepare student representatives who would eventually sit on the forthcoming UBC RI advisory committee. During that time, the AMS' intention was to adopt the resulting report and its recommendations as an internal AMS policy. However, as the student government changed in the last couple of years and a number of incidents within the student government have resulted in considerable internal conflict, the priorities in the student agenda have shifted away from RI.

It seems evident that without sustained student involvement, the RI strategy has little chances of success. While broad student engagement and consideration of different viewpoints is essential to raise awareness of the importance of implementing RI strategies, it is also important to ensure that radical positions do not stall or hijack the process of analysis, debate and recommendations of ESG risks and opportunities. A measured and conscientious analysis of ESG issues can be helpful to develop informed arguments, debates and recommendations to enhance the university's investment practices. Students, as well as other stakeholders, will need considerable time and guidance to develop an appropriate understanding of the methods and impacts of RI practices.

Over the next few months, it will be necessary to engage the executive body of the AMS in discussions to develop an RI policy for UBC. The AMS participation and broader student engagement is crucial to ensure that the RI policy remains accountable to the university community. In the absence of the AMS' engagement and leadership, student-based clubs and associations at UBC could also contribute to the development of the University's RI strategy. These groups may include: the MBA Student Association, the

Commerce Undergraduate Society, the Finance Student Association, human rights groups, and other individuals with an interest in the intersection of economic, social and ecological issues.

Faculty

Within the UBC faculty there is a great deal of expertise that could be helpful to examine ESG risks and opportunities associated with the University's investments. Unlike students, due to their long-term association with the University, faculty and staff engagement can also provide a sustained effort and institutional memory for the implementation of RI practices.

Potentially valuable input for developing an RI policy at UBC could come from faculty such as:

- **Dr. James Tansey,** former chair of business ethics at the **W. Maurice Young Centre for Applied Ethics**. Dr. Tansey holds a joint appointment with the W. Maurice Young Centre for Applied Ethics and Sauder School of Business. He has taught MBA, EMBA, Executive Education, MSc and Undergraduate programmes in the UK and Canada. Dr. Tansey's research activities cover a number of areas including the social impacts and acceptability of new technologies, including stem cells and biobanks. He has written extensively on the role of public consultation in the governance of industrial societies, industrial ecology, scenario methods and climate change. His current research focuses on emerging international markets for carbon exchange, social determinants of health in developed countries and the governance of biotechnology and genomics in Canada.

- Dr. **Janis Sarra,** Professor at UBC's Faculty of Law and Director of the National Centre for Business Law. Dr. Sarra served as Associate Dean of the Faculty of Law from 2003 to 2007 and was Senator of the University from 2003 to 2008. In 2004, she was awarded title of Distinguished University Scholar for her scholarship in corporate and securities law. Dr. Sarra teaches corporate finance, commercial insolvency law, corporate law, securities law, contract law and law and economics at the UBC Faculty of Law. Dr. Sarra is a member of the European Corporate Governance Institute, The Insolvency Institute of Canada, the American Bankruptcy Institute, INSOL Academics Forum, the International Insolvency Institute, the Canadian Bar Association and on the executive of the Canadian Law and Economics Association. She researches and writes in the areas of corporate law and corporate finance, securities law and commercial insolvency law.

- **Peter N. Nemetz** from the Sauder School of Business and working with students in the Institute for Resources, Environment and Sustainability. He is also the coordinator of the MBA specialization in sustainability and business at Sauder.

- **Prof. Ronald Davis,** Associate Professor of Law, Faculty of Law, UBC. Prof. Davis' research interests are pension law, corporate law, trust law, law and economics, law and society, and insolvency law. His doctoral dissertation concerned the role of pension funds in corporate governance, focusing on the potential exercise of control over these activities by the employee-beneficiaries and whether such control could lead to increased corporate social responsibility.

While this is only an illustrative list, it demonstrates some of the perspectives and expertise that could help to build a comprehensive approach to the University's RI strategy.

Emeriti faculty

The drafted TOR for the UBC RI advisory committee identified Emeriti Faculty as a relevant stakeholder group to participate in the development of UBC's RI practices. Last March, the UBC Association of Professors Emeriti nominated Prof. Mark Thompson as the potential emeriti faculty representative on the RI advisory committee. Prof. Thompson's research interests include: Changing roles for labour and management in public services; the treatment of safety and health issues in arbitration; the impact of NAFTA labour accords, and the management of industrial relations and regionalism in Canadian industrial relations.

University staff

A significant issue to consider in relation to the development of an RI strategy is that the University also manages several pension funds on behalf of the University's employees. As trustee of one of these funds, the University needs to consider the wishes of the pensioners regarding their investment values and priorities. However, identifying those values and priorities is a complicated issue.

There are key differences between the role of the University's authorities in financial decision-making for funds that support the University's mandate (e.g., the endowment) and the funds that the University invests on behalf of its employees (e.g., the staff's pension fund). Most significantly, the University trustees and its agents have distinct obligations in relation to the different time-horizon of the University's investments. In order to meet the obligations to retiring beneficiaries, pension funds have a shorter investment horizon and therefore require a lower tolerance for risk. The endowment, on the other hand, is invested in perpetuity with a capital preservation goal in mind.

For these reasons, the university's staff as a beneficiary group of pension funds' investment returns is an important stakeholder group to engage in the development of an appropriate RI strategy. Unionized staff at the University could also provide relevant input regarding current priorities and labour practices to consider in the valuation and ownership of investments. These issues could be useful as the RI committee aims to identify how ESG risks and opportunities can arise from corporate practices and the interaction of human resources issues.

Alumni

UBC's alumni are important stakeholders to engage in the development of the University's RI strategy. Alumni often support fundraising efforts to strengthen the University's resources. Additionally, alumni with experience in RI could also provide their expertise and advice to support the RI committee. To illustrate, one such alumnus is: Ms. Ashley N. Hamilton, Research Analyst, Shareholder Association for Research and Education (SHARE). Ms. Hamilton assists and advises institutional investors on effective strategies for conducting shareholder engagement dialogues with corporations regarding social, environmental and governance issues. Her professional practice includes extensive research on the impact of ESG issues on long-term shareholder value, including climate change, corporate transparency, sustainability reporting, human and indigenous rights, supply chain management, and responsible property ownership.

External stakeholders

The development of the RI strategy should also engage the input from external actors; particularly, the investment industry and the existing managers of UBC's investments. These stakeholders may contribute a high level of technical knowledge that could be valuable in the development of UBC's RI policy and the recommendations of the RI committee.

External stakeholders that could contribute to the success of this initiative may include:

- **Canadian Association of University Business Officers (CAUBO).** www.caubo.ca

  CAUBO's mission is to promote and support the professional management and effective leadership of the administrative affairs of Canadian universities (CAUBO, 2009). The present research has demonstrated that university administrators need to better understand the implications and risks associated with adopting RI policies in order to respond to demands for these new investment approaches. Therefore, it would be appropriate, in the context of CAUBO's membership to coordinate the formation of a coalition of Canadian universities to further examine emerging RI issues and sharing of best practices.

- **United Nations Principles for Responsible Investment (UN PRI).** www.unpri.org

  The Principles for Responsible Investment provide a framework to appropriately consider the potential impact of environmental, social and corporate governance (ESG) issues on the performance of investment portfolios (UN PRI, n.d). Additionally, the UN PRI secretariat is responsible for supporting an academic network as a web-based tool for knowledge exchange within the responsible investment community (UN PRI Academic Network, n.d.). The Academic Network provides freely accessible avenues for research, education and network-building on critical responsible investment issues.

- **Responsible Endowments Coalition (REC).** www.endowmentethics.org

The Responsible Endowments Coalition is a diverse network of students, alumni and faculty from across North America dedicated to advancing socially and environmentally responsible investment in college and university endowments.

- **Shareholder Association for Research and Education (SHARE).** www.share.ca

SHARE is a Vancouver-based social enterprise that coordinates and implements responsible investment practices. SHARE provides active ownership services, including proxy voting and shareholder engagement services as well as education, policy advocacy and practical research on emerging responsible investment issues (SHARE, n.d.).

- **The Social Investment Organization (SIO).** www.socialinvestment.ca

SIO is the national association of financial institutions, investment firms, financial advisors, and other organizations collaborating to promote the practice of socially responsible investment (SRI) in Canada (SIO, n.d.). The SI0 recently published a study that examines training and education needs among Canadian foundation and endowment trustees in relation to responsible investment practices (Strandberg & Martin, 2009). In its recommendations, the report calls on CAUBO and other organizations to mount training initiatives and meet the growing demand for RI guidelines among foundations and endowment trustees (Ibid., p. 10).

7. Recommendations

Over the last couple of years, international financial markets have endured losses unprecedented since the Great Depression of the 1930s. It is now evident that poor corporate governance practices — such as the authorization to securitize highly speculative and toxic assets — can induce undue systemic risk and affect investment performance. We also know that excessive reliance on external credit ratings renders investors vulnerable to bogus claims of corporations and individuals motivated more by self-interest than by public welfare. In this environment, the broad losses to the value of educational endowments have had implications so grave as to threaten the missions and operations of many educational institutions (Commonfund Institute, 2009, p. 22).

In order to cope with this financial crisis, colleges and universities have been forced to re-evaluate their investment models and spending practices. Enhanced financial analysis and risk management practices must be an important aspect of a revised investment model for universities as a method to guarantee capital preservation of beleaguered endowments. The key to managing risk is understanding it more fully. This can be accomplished by developing more in-house risk management expertise, yet universities on the whole have recently decreased their investing in staffing despite increasing portfolio complexity and investment markets that have been experiencing record high volatility (Commonfund Institute, 2009, p. 100).

It is in this increasingly complex and volatile climate that the UBC trustees must make financial decisions to further the University's mandate. Cognizant of these challenges and based on the extensive research undertaken to consider the potential impact of RI approaches and ESG issues on investment performance, it is recommended that UBC adopt the following recommendations:

1. Develop a Responsible Investment advisory committee

By engaging the expertise of a diverse set of academics and professionals, Responsible Investment approaches provide valuable tools to identify and mitigate risk, thereby enhancing investment performance. Creating an RI Advisory Committee would provide the University with the in-house capacity to expand current investment practices to consider investment risks and opportunities not currently addressed by conventional financial analysis and endowment management models. To be effective, the committee must achieve a high level of expertise and broad diversity of ESG perspectives as this can strengthen risk analysis and management policy by providing a more comprehensive assessment of issues affecting the University's investments.

In order to implement an RI advisory group, the Terms of Reference dated April 10, 2008 should be taken as a starting point. According to that document, the structure of the advisory committee should consist of the following number of representatives:

1 The UBC Treasury	2 faculty
1 The UBC Development Office	2 staff
1 UBC IMANT	1 investment industry
3 students	1 emeriti faculty

Additionally, it is recommended that the committee include one representative of the UBC Board of Governors and one representative of the UBC alumni. Including a member of the UBC Board of Governors on the RI advisory committee would create an important link between the issues addressed by the committee and the risk assessment needs of the University's trustees. Engaging UBC alumni in RI Advisory Committee membership also opens the possibility of recruiting a practitioner from the Responsible Investment industry.

Given the considerable demands placed on the advisory committee's chair, it is not recommended that the representative of the UBC Treasury carry out this role as currently proposed in the drafted terms of reference. Instead, it would be appropriate to seek a member of the UBC staff or faculty, with an interest in this topic, to assume the responsibility of chairing the advisory group.

Provisions should be made for promoting gender equality and representation of visible minorities as well as a breadth of diversity in expertise and perspectives within the RI committee membership.

2. Hire an institutional risk manager with an RI mandate

A revision of current endowment management policies and investment practices must make a strong emphasis on risk management in order to guarantee appropriate levels of investment returns. RI approaches can be helpful in more appropriately addressing emerging investment risk and identifying issues often overlooked by current investment approaches. However, implementing an RI policy requires considerable time and effort. Investment issues are complex and the demands placed on the advisory committee can far exceed the time and expertise that individual committee members can devote to the task. Often, RI adds new responsibilities for already busy university administrators (Weber, 2009).

To deal with these challenges, it is recommended that the University leverage existing institutional resources, engage the expertise of its intellectual community and work in coalition with like-minded institutions (Ibid.). In order to minimize the costs of implementing RI practices, as well as create educational opportunities, many institutions engage students to conduct the bulk of the committee's work. In order to accomplish this, it is recommended that the University allocate adequate financial resources to implement its RI policy and to hire a paid staff person responsible for coordinating risk management efforts along with the activities of the RI advisory committee. The cost to fund this position would be similar to that of staff that currently evaluates the University's investment managers and could add significant value through increased long-term returns.

UBC administrators must give careful attention to its reputation as a responsible investor and the perceptions of third parties such as market analysts, public interest groups, donors and the media. If the University is perceived to be acting contrary to its stated institutional values, it might harm its ability to attract new donations, students, faculty and staff.

3. Engage faculty, staff and students

RI best practices among colleges and universities are, by definition, a participatory process. Implementing an RI committee can open a multidisciplinary forum for dialogue and democratic decision-making regarding corporate and investment practices. This could actually become an important initiative to expand the University's educational mandate and to consolidate UBC's position as a global sustainability leader.

Quite often, strong student activism is at the heart of successful Responsible Investment implementation among colleges and universities. However, in the case of UBC, there has been a low level of participation of the University's constituencies in the development of its RI strategy. Particularly, the AMS as the institutional body responsible for representing students' concerns must make concerted efforts to participate in the development of the University's evolving investment practices.

In order to develop an effective RI strategy, it is essential to engage a wide range of ESG perspectives and viewpoints likely to affect the investments as well as the reputation of the University. It is important, however, to avoid radical and uninformed positions from creating an adversarial climate as these circumstances could stall the progress of the RI strategy.

4. Participate in coalitions

Responsible Investment is most effective as investors pull their resources together to achieve economies of scale and to address emerging ESG risks and opportunities. Colleges and universities participating in collaborative action can share best practices and therefore prevent unnecessary duplication of efforts to implement RI frameworks. In particular, UBC should actively participate in:

a) The efforts to set up an RI coalition of Canadian universities. Given the University's track record in the development of institutional policies to incorporate social justice and sustainability issues into its curricula and campus operations, UBC has an opportunity to become an important leader in the development of resilient and effective endowment management practices. To do this, the University could proactively address the emerging needs among Canadian universities for a clearer understanding of the potential impacts and strategies required to properly consider environmental, social and governance issues in financial decision-making. In order to accomplish this, UBC could host a Responsible Investment symposium as a way to generate a national dialog regarding RI and the management of university endowments and pension funds.

b) The United Nations Principles for Responsible Investment as a signatory. The Principles represent a viable and simple implementation framework for a growing number of institutional investors adopting RI. Signatories to the Principles benefit from a wealth of information and resource sharing to incorporate consideration of ESG issues into financial decision-making.

c) The Responsible Endowments Coalition in order to build on its experience and successful track record in the implementation of RI practices among North American colleges and universities.

5. Create educational opportunities to advance Responsible Investment knowledge

While Responsible Investment is being adopted by a growing number of financial institutions and investors, this research suggests that Canadian academic institutions demand further research and education on the consideration of ESG issues as a risk management approach. RI, as an interdisciplinary framework, draws on investment practice, its interaction with law and the growing understanding about the interconnection between environmental and social issues (Tagger, 2009). For this reason, RI represents a promising area for the improvement of conventional financial and economic practice.

In light of the onset of serious environmental and financial crises around the world, Universities have a responsibility to re-assess their role in fostering a sustainable economy and a resilient financial system. Transitioning to a sustainable and low carbon economy will require a substantial shift in social, political and corporate values. Various universities are actively assuming their own responsibility in addressing these challenges. In the context of its Sustainability Academic Strategy, UBC also has an opportunity to develop further research and expertise required to strengthen responsible and sustainable investment practices. For this reason, it is recommended that the University bring together faculty and relevant stakeholders to incorporate RI into its curricula.

A worthwhile question for future research is: To what extent does the University's reputation, its ability to consistently recruit students and the perception of credit rating agencies have a material impact on the capital raising costs of the University and its overall financial performance? And in today's more socially responsible environment, to what extent do ESG policies and practices affect the University's reputation and its ability to attract new donations?

Conclusion

In recent years, North American colleges and universities have been called on to manage their investments and their institutional practices in ways that reflect the values of their communities. The financial crisis that began in 2008, and the ensuing losses in the order of $94.5 billion USD in the value of their endowments (Commonfund Institute, 2009, p.3) provided new reasons for these institutions to reassess how they manage their investments.

For university trustees, Responsible Investment provides powerful tools to ensure that they more appropriately fulfil their duty to act prudently and responsibly on the best interest of their institutions. Through a more comprehensive understanding of emerging environmental, social and governance risks and opportunities, RI frameworks can help to ensure that current and future generations of students, faculty and staff will benefit from a robust investment management approach. At the same time, through the judicious implementation of RI practices, universities also have an opportunity to leverage the large capital base of their educational endowments to play a growing and significant role in the development of a sustainable economy.

Universities and colleges have always played a critical role in shaping the global economy, in part by developing economic and philosophical tenets that have come to shape that economy, and by educating the men and women who manage markets and resources. Many academic institutions, including UBC, have acknowledged and acted upon their duty to prepare new generations with a sense of environmental literacy and social responsibility. However, they have had less success applying those same values to the systems with which they manage their endowments. This paper has offered some evidence to suggest that they might meet these goals while maintaining a prudent and profitable investment approach.

Likewise, institutions that explore RI have an opportunity to open new academic forums where university members can come together to explore and promote sound corporate and investment practices. Given its interdisciplinary and participatory methods, Responsible Investment frameworks provide an opening for a broad diversity of perspectives and expertise to work together to expand financial and economic theory.

By encouraging individuals and institutions to critically engage in the discussion of social and environmental responsibility, the RI approach represents an opportunity for UBC to leverage its resources, collaborate with key organizations and encourage the implementation of policies that can ensure that the University remains a leader in the resolution of environmental, social and economic challenges in Canada and abroad. In 2007, the UBC Board of Governors recommended the creation of an advisory group to develop and implement a comprehensive Responsible Investment Policy. The present research, spanning well over two years, suggests this was a pragmatic and forward-thinking decision, which should be acted upon to ensure UBC meets its visionary mandate.

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Appendices

Appendix – A: SRI in the Rockies Conference Report

Appendix – B: Responsible Endowments Coalition Conference Report

Appendix – C: Canadian Business Ethics Research Network Conference Report

Appendix – D: Responsible Investment Practices Among Universities

SRI in the Rockies – Conference Report
Whistler, B.C., October 26 – 29, 2008

- SRI industry sees the actual financial crisis as an opportunity to advocate for a level of accountability and regulation that has been lacking in financial systems. The SRI industry has been working in these issues for many years and will be in a good position to leverage their knowledge and investment products in light of upcoming regulation.

- SRI is seen as a way to address the fiduciary duty of trustees. Many SRI investment managers were able to identify negative trends in financial markets and take action to protect their client's investments.

- Financial performance of SRI investments is, at least, equivalent to conventional investments. However, it is important to look at performance of corporations over the long term. (I will have access to some reports and indexes that make these comparisons).

- Community Development Banks in the US have developed investment products that offer positive returns for institutional investors while addressing local social issues (i.e. job creation, social housing, organic agriculture, etc.). These investments offer opportunities to have social and economic impacts.

- There is an emerging trend of SRI REITS. These securities do not only focus on the "green" aspect of real state but also on the social implications of real state development (unions, working conditions, social housing, etc).

- It is important to construct a story of SRI. How can this story be used in the engagement of investors (donors in the case of UBC).

- There is no clear winner in the alternative energy industry in which to bet (i.e. solar, wind, geothermal). There was a similar situation at the beginning of the PC industry. An investment manager claimed that it was best to invest in key companies because the gains obtained from the consolidation of one will offset the losses in those companies who will not prevail.

- I heard many recommendations to be more active in the proxy voting process as a good SRI strategy for a university endowment. By leaving voting decisions to investment managers it is possible that conflicting votes could contradict each other and cancel the possibility of addressing corporate behaviour concerns.

- Vancouver-based Ethical funds (Canada's largest SRI fund) is actively doing research and emitting recommendations to address environmental harm associated with Alberta's tar sands. UBC has an opportunity to leverage its resources, collaborate with organizations like Ethical Funds and take a leadership role in important environmental issues in Canada.

Roadmap for UBC's SRI Committee

1. Review UBC's SRI Terms of Reference (TOR):

   - The TOR does not address the relationship between the appointed board of directors of IMANT and the SRI committee.

   - The TOR as currently drafted reads: "The Vice President, Administration and Finance is responsible for identifying suitable candidates, assessing qualifications of potential committee representatives, and ensuring that they are willing to serve on the SRI Committee under the conditions outlined."

   - I would recommend that the TOR endorse a selection process for members of the SRI committee where different stakeholder groups (i.e. staff, faculty and students) identify, assess and recruit suitable candidates to represent them in the committee.

2. Develop an annual agenda for the SRI Committee through the following steps.

3. It is essential for the development of the SRI committee to kick-start the process with an Educational month. Some of the topics to over are:

   a. How do these committees work in the states, (See University Endowment Trustee Book).
   b. What are the asset classes: "get to know the UBC endowment".
   c. Break down custodian report into each asset category; bring someone that can speak about each class of the investments (education month).
   d. Identify some of the initial concerns from within these assets classes (i.e. from a universe of 20 issues pick 5 to constitute the annual agenda for the university)
   e. Put agenda in the website, get some input from the university at large.

4. Do a UBC-focused literature review to identify UBC values/priorities:

   a. Non-discrimination clauses (university value)
   b. University environmental values/commitments
   c. Supply chain practices
   d. Survey the student body
   e. What are the connections with the community (city of Vancouver, First Nations)
   f. How do Administrators make decisions on behalf of the university?

5. Develop strategies for each asset class: how they could become SRI?

6. Give the agenda (with priorities identified by the SRI committee) to the board of governors for approval. This way the committee will be involved in setting up priorities and engage in the process.

7. Have a scheduled presentation of the proposed agenda with the Board. (March/April report)

8. Once the Board of Governors has approved the agenda, it would be helpful to split the SRI committee into subcommittees (3 members) to focus on a specific type of security. These subcommittees can seek specific mentorship and expertise on the issues/securities where they are focusing. (I.E. create a PR Subcommittee: how do we spread the word to alumni, student engagement, website?)

Alternative steps:

- Write a letter to each investment manager:
  - Inform what are UBC values (based on UBC literature review) and ask them: how do you respond to those values?

- Could also look at how IMANT currently evaluate the managers? Adding values language to the service given by investment managers: we are going to start evaluating how do they engage with these values. Committee should be reviewing the responses given by investment managers.

- Consultation with investment managers could happen during Education Month. Communication with investment managers must include one month for their response. SRI Committee can set up the agenda based on their responses. Letters could be tailored depending on type of manager/asset category; how are they voting, do they have a criteria for choosing investments?

Additional things to consider:

- How many people from IMANT will sit in the committee?
- Who will be the representative from the (responsible) investment industry?
- Look at example for value statement from Stanford
- Voicethread.com (endowments) How to do research into Endowment investments?
- SEC.gov securities exchange commissions: gives detailed information for the structure of endowment/funds investments. Is there a Canadian version of the Securities Exchange Commission?
- How can the SRI strategy help the development office?

Potential resources for the development of SRI strategy for UBC:

- Responsible Endowments Coalition
  Morgan Simon, Executive Director
  Morgan@endowmentethics.org
  1-415-728-4893
  www.endowmentethics.org

  The Responsible Endowment Coalition works with over 70 colleges and universities in North America addressing SRI issues. They can provide workshops and consulting to develop an SRI strategy specifically focused on universities' endowments.

- The Ethical Funds Company
  Michelle de Cordova, Manager Sustainability Research
  mdecordova@ethicalfunds.com
  604-714-3861
  www.ethicalfunds.com

  Michelle is a member of the sustainability team of the Ethical Funds Company. She is also the author of "Unconventional Risks: An investor response to Canada's Oil Sands"

- Strandberg Consulting
  Coro Strandberg, Principal
  cstrandberg@shaw.ca
  604-433-7339
  www.corostrandberg.com

  Coro is a former chair and **z** of Vancity's Board of Governors. She was a founding trustee of Ethical Funds. Coro told me that she has also been working with UBC's Sustainability Office.

- W. Maurice Young Centre for Applied Ethics
James Tansey, former Chair in Business Ethics at UBC's Centre for Applied Ethics
james.tansey@sauder.ubc.ca
604-827-4443
www.ethics.ubc.ca

James has written extensively on the role of public consultation in the governance of industrial societies, industrial ecology, scenario methods and climate change. He has provided guidance and support to previous research I have done regarding UBC's efforts to set up an SRI committee.

Responsible Endowments Coalition (REC) – Conference Report
New York, February 20th, 2009

Connecting Committees, Creating Community: New Roles & Opportunities for Responsible Investment in Higher Education

Conference highlights:

- As of this year, there are 34 SRI Committees in the U.S. At least 20 of these committees were represented at the conference.

- At least 26 of the SRI Committees focus on proxy voting as one of their main functions.

- Universities are actively exploring opportunities in Community Investment. According to speakers at the conference, Community Development Banks provide secured investments, have outperformed conventional banks and offer an opportunity for positive impacts in the local community. This strategy can be helpful for fundraising efforts in the Development Office.

- Conference participants identified *State Street Global Group*, one of UBC's current investment managers, as a company with a poor SRI performance.

- In theory, all asset classes could have an SRI component. However, a presenter questioned the validity of *Social Hedge funds* (are we doing a social good by shorting or betting on the decline of a corporation?).

- There are opportunities to engage in active ownership strategies for UBC even though the majority of the university's investments are through commingled funds (I.E. ask that managers follow proxy voting guidelines developed by the university).

- The coalition is encouraging universities to vote in favour and support six shareholders' resolutions. Universities in the coalition developed the first two of these resolutions:

    - MacDonald's Corporation – Resolution to reduce pesticide use.
    - Chevron Corporation – Resolution to develop and adopt a Human Rights Policy.
    - PepsiCo, Inc. – Resolution to Improve Recycling of Beverage Containers.
    - Exxon Mobil Corporation – Resolution to Reduce Carbon Emissions.

- Citygroup – Resolution for “Say on Pay/Executive Compensation” and on Predatory Credit Card Practices.
- Wells Fargo – Resolution for “Say on Pay/Executive Compensation” and on Predatory Credit Card Practices.

Deadlines to confirm participation in the “vote and engage” initiative are April 1st and April 15th.

SRI Best Practices

- There was a strong recommendation to make the SRI Committee as student intensive as possible. Students often do the majority of the research and drafting of committee recommendations. The rest of the committee members can offer advice and feedback to complement students’ work.

- Columbia University, with an SRI Committee in operation since 2000, has introduced a Community Service Learning course based on the university’s SRI strategy.

- SRI Committees often have a student co-chair.

- Divestment is readily discouraged as a primary strategy of SRI committees.

- Universities are encouraged to use the UN Principles for Responsible Investment as aspirational goals for developing a SRI strategy. The principles for responsible investment take political issues out of the investment strategy and focus on fiduciary aspects of investments.

- Universities should revise the set of questions asked before hiring new investment managers to gauge their willingness and proficiency to engage in SRI practices.

- UBC appears to be a leading university regarding the transparency of endowment investments compared with U.S. institutions.

- Many SRI Committees actively engage with students and individuals with an interest in their institutional investments. Websites and town hall style meetings are used to request feedback and disseminate information about the university’s investments.

Relevant contacts made during the conference:

Toay, Taun
Executive Assistant to Executive Vice President / Staff Representative on the Bard Committee on Investor Responsibility
Department(s): Office of Executive Vice President
Office: Blithewood, 315
E-mail: toay@levy.org
Phone: 845-758-7745

Canadian Business Ethics Research Network (CBERN) - Conference Report
May 29 – 31, 2009, Ottawa

Background

CBERN is a network of academics, government, business and non-profits supporting business ethics research in Canada (SRI, mining, human rights, sustainability, bio-tech, etc.). The organization is divided in geographical and thematic clusters. The conference was a meeting of the SRI cluster and the goal was to support SRI research and provide networking opportunities for academics and practitioners.

Tessa Hebb, Director of the Carlton University Centre for Community Innovation, is a key leader on SRI research in Canada and actively involved with CBERN's SRI cluster. Tessa is also the Chair for the second conference of the United Nation's Principles for Responsible Investment. The UN PRI conference, taking place in October at Carlton University in Ottawa, brings together academics and practitioners from around the world doing research on SRI and on the application of the UN's principles.

I submitted an application to present my research at the October conference and, since Tessa was responsible to review my abstract, I was invited to present my research proposal at CBERN's conference. The purpose was to obtain feedback and support regarding my research.

Conference highlights

- My presentation: "Integrating SRI practices to the management of the UBC endowment" received very positive feedback.

- Participants acknowledged that while there seems to be growing interest for SRI, there is only one university in Canada that has a SRI committee (UT had their first meeting on Monday, May 25, 2009.)

- There is an opportunity to engage Canadian Universities' Trustees and administrators in the consideration of SRI issues.

- I proposed a motion to strengthen the CBERN's SRI cluster to engage universities' trustees and invite them to the PRI academic network in October.

- I met Heather Hachiagian, a research assistant working under the supervision of Tessa Hebb. **Heather has been doing a study of SRI among Canadian Universities (the topic of my directed study).** I will connect with her and assess the possibility of collaborating.

- There were two other presenters from UBC:

    - **Prof. Ronald Davis,** Associate Professor of Law, Faculty of Law, UBC. Prof. Davis focused on the role of Fiduciary Duty and SRI at pension funds. **Prof. Davis, as well as Dr. Janis Sarra from the faculty of law, could be a good resource as UBC develops a SRI strategy.**

    - Ms. Pernille Jessen, PhD Candidate, Finance, Aarhus School of Business, Aarhus University, Denmark, Visiting Scholar, UBC: "Retail Structured Products for Socially Responsible Investment"

      Pernille's research proposes a quantitative method to incorporate responsibility into the investment decision and considers if and how structured financial instruments can facilitate access to SRI for small retail agents. **Pernille's work is trying to capture the TRADE OFFS that small retail investors might be willing to assume in order to align their investment preferences and their values (social, sustainability, transparency, etc.)**

- Ian Bragg, from CR Strategies, presented a report focusing on the root causes of the financial crisis from the environmental, social and governance (ESG) perspective employed by the SRI community. For more on the report see: http://crstrategies.ca/wp-content/uploads/2009/06/financialcrisis-anesgperspective-cr-strategies-june20091.pdf)

    - According to this study, the SRI community was ahead of the mainstream financial community on issues like corporate governance, executive compensation, predatory lending and transparency – all significant contributors to the crisis. However, with few exceptions, the SRI community did not foresee the crisis any better than did the mainstream financial community.

- Tessa Hebb talked about outcomes from the call for proposals for the PRI Academic Conference:

    - Of about 60 abstracts submitted for the conference, **only five came from Canada; three of which were from students (including Pernille's and mine).**
    - Most SRI research and practice is taking place in Europe.

June 3, 09 - Interview with:
Anthony Gray, Special Advisor to the President
University of Toronto (UT)

Background

During my visit to Toronto, I had an opportunity to interview Anthony Gray about the creation of UT's SRI committee. UT is the first and only Canadian University to develop an SRI committee. The process took about a 1.5 – 2 years.

Highlights of our discussion

- The SRI committee follows with a tradition of student activism calling for the divestment of university holdings on issues like South Africa, Darfur and tobacco.

- Different student groups had done a great deal of background work regarding SRI. Students at UT engaged with the office of the president and expressed their interest for incorporating SRI practices to the universities investments.

- Students offered a couple of presentations to the president and he recognized that the students were raising issues that would be affecting the university's investments. The president made a decision to form a committee to start addressing ESG issues regarding the university's investments.

- The role of the committee proposed by the President was to draft terms of reference for a formalized SRI Committee. In this committee, there were students and four administrators from the university (the Vice-President of Business Affairs, staff from UT's investment unit and from the office of the president).

- There were three major concerns in relation to setting up a SRI committee:

Concerns	How were they addressed
- Universities typically do not take a political, moral or ethical position on controversial issues, mainly because a university is supposed to be a space for dialog among a wide range of views. There was a concern that an SRI strategy would shut down the opportunity to debate on proper approaches to dealing with controversial corporate harm issues.	The SRI committee will be responsible for canvassing the university community about their views and concerns regarding the UT's investment practice. In this sense, the SRI committee provides an additional forum for debate regarding proper methods to dealing with corporate harm issues.

Is it appropriate for the university to make moral questions regarding pension funds? These funds are held in trust for other people.	- As a trustee, the university is responsible for addressing risks that might affect the performance of the investments.
How is SRI going to affect the university's finances in two ways: 1. Financial return 2. Costs associated with having a SRI strategy (who is going to oversee the SRI strategy).	- While there isn't complete clarity and comfort regarding the impacts on financial return of SRI, there was an understanding that SRI was based on good investment principles and there was no reason why not to do it. - There was an understanding that the SRI committee could not impose a burden on the university and that people would need to volunteer their expertise to incorporate SRI to UT's investment practice.

- Over the next few months, the SRI committee will canvass the university about SRI priorities and form subcommittees to do research on specific issues.

- SRI committee does not have decision-making power but they have a persuasive opportunity to enhance UT's investment practice. Tony believes it would be a mistake for the university not to take in consideration the recommendations of the SRI committee however it would also be a mistake for the committee to direct the university's investments.

- A question in Tony's mind is what are the measures of success for the committee. This will be in function of the committee's response to the priorities of university constituents. Tony sees a role for the university to engage the UT community in dialog and debate regarding investment practice and funding.

- Tony would be interested in learning about UBC's experiences with SRI and to collaborate as these practices evolve.

Responsible Investment Practices Among Universities

Corporate Responsibility and Sustainability

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ABSTRACT

This report documents 'Responsible Investment' (RI) trends and practices among colleges and universities. Specifically, in light of the global financial crisis, it assesses the ongoing fiduciary responsibility of universities and trustees to incorporate environmental, social and governance (ESG) issues into investment decision-making. University trustees have a legal and moral duty to consider how issues normally referenced within the framework of 'Responsible Investment' (RI) may affect the management of a university's assets. However, university administrators engaged in these processes often find that their institutions have so far lacked the necessary information to answer key questions raised when considering the methods employed and effects of RI. In order to answer these questions, this report documents industry and university trends regarding RI issues and the investment of assets endowed to universities. Based on an analysis of best practices among colleges and universities, the report provides recommendations for universities to adopt.

Key Words: Responsible Investment, Socially Responsible Investment, Sustainable Investment, Ethical Investing, Community Investing, Mission Investing, University Investment Practices

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Abstract

This report documents 'Responsible Investment' (RI) trends and practices among colleges and universities. Specifically, in light of the global financial crisis, it assesses the ongoing fiduciary responsibility of universities and trustees to incorporate environmental, social and governance (ESG) issues into investment decision-making. University trustees have a legal and moral duty to consider how issues normally referenced within the framework of 'Responsible Investment' (RI) may affect the management of a university's assets.

In Canada, and across the globe, growing numbers of pension funds and endowments are considering how the integration of ESG factors should affect the selection and management of investments (SIO, 2009, p. 22). This trend is based on an emerging notion that prudent financial decision-making should consider the potential risks of non-financial issues on investment returns (Freshfields Bruckhaus Deringer LLP, 2005; Krosinsky & Robins, 2008; UNEP FI, 2009). Similarly, university trustees have a legal and moral duty to consider how issues normally referenced within the framework of 'Responsible Investment' (RI) may affect the management of a university's assets.

In the wake of the recent financial crisis, educational endowments' investment returns fell 24.1% on average in the last six months of 2008 (Commonfund Institute, 2009). This represented the biggest drop in the value of endowments since the 1970s, a time when endowment growth was affected by low returns and high interest rates (Clarke, Malott, and Mehrotra, 2005, p.22; Zezima, 2009). The impact of the financial crisis on endowment investment returns has been so severe that even some of the richest universities in the world have faced considerable wage freezes, cuts to student funding and staff layoffs (Ibid.).

Even in the more volatile investment climate, there is a growing recognition by educational institutions and financial markets that considering ESG factors in investment portfolio management positively affects long-term investment returns (Krosinsky and Robins, 2008). In addition to the traditional screens, more recently, financial markets have also come to acknowledge the material impact of environmental factors on the long-term value of investments (Ibid). Given the recognition that climate change has the potential to inflict considerable harm on a global scale, this report argues that responsible fiduciaries are those who examine emerging risks of environmental and social issues on the long-term value of assets under their control. It is important to note that these challenges also represent an opportunity to capitalize on the development of appropriate technologies and services required to transition to a more sustainable economy.

Owing to the unprecedented financial and ecological crises around the world, institutions of higher education ought to re-assess their role in fostering a sustainable economy and a resilient financial system. To fulfil these duties, many universities have established advisory groups to provide formal and ongoing advice to schools' trustees regarding ESG issues in relation to their endowments and pension funds. At least 34 colleges and universities in the United States have established committees on investment responsibility. Meanwhile, Canadian universities have just begun to incorporate these frameworks into their investment philosophy. Last May, the University of Toronto became the first university in Canada to create an RI advisory committee. Queen's University and the University of British Columbia are also developing RI policies (Forbes, 2009; Smailes, 2009).

University administrators engaged in these processes often find that their institutions have so far lacked the necessary information to answer key questions raised when considering the methods and effects of RI. Some of these questions may include: Is it appropriate to seek alignment between institutional values and financial decision-making? What are current approaches to Responsible Investment applied by other academic institutions? What investment criteria can help university trustees fulfil their legal obligations to current and future generations of students, faculty and staff? What options do universities have to exercise their rights as investors of their endowments, both as individual investors and in coalitions?

In order to answer these questions, this report documents industry and university trends regarding RI issues and the investment of assets endowed to universities. By assessing best practices among universities and colleges, the report documents the particular context, approaches and priorities of academic institutions regarding Responsible Investment and their consideration of ESG risks in financial decision-making.

Based on an analysis of best practices among colleges and universities, the present report recommends universities adopt the following policies:

1. Establish a diverse and multidisciplinary advisory committee consisting of students, faculty, staff and alumni to ensure that the 'Responsible Investment' and investment performance interests of all endowment stakeholders are met. Both a subcommittee of trustees and multi-stakeholder advisory committees should also be formed.
2. Promote education and best practices among university trustees and investment managers. To do this, advisory committees must establish access to suitable resources, analyze the Responsible Investment practices of other universities and, establish partnerships with relevant organizations, such as the Responsible Endowments Coalition (REC) and the United Nations Principles for Responsible Investment (UN PRI).

3. Ensure that all relevant viewpoints are considered by building dialogue with stakeholders and involving them in a rigorous and continuous analysis of ways in which ESG issues may affect the long-term value of investments.
4. Incorporate public consultation and deliberation mechanisms among trustees and advisory committees to reach a consensus on socially and environmentally responsible objectives and approaches. These deliberations should inform the university investment practices.
5. Establish a Responsible Investment policy and strategy that serves as a guiding tool:

   - for university trustees seeking to adhere to and uphold fiduciary responsibility with respect to RI practices; and

   - to disseminate socially responsible philosophy throughout an educational institution and its constituent base.
6. Allocate appropriate financial and human resources to the administration and management of Responsible Investment policies in order to develop commitment to RI practices among staff.
7. Use the university's Responsible Investment framework as a tool for student education. Best practices include promoting student participation in Responsible Investment advisory groups, incorporating RI into the curriculum, and developing student-managed investment funds.
8. Codify RI policies into contractual service agreements of investment management responsible for investing the endowment on behalf of the university. Conduct ongoing due diligence and analysis to ensure that the RI policies are integrated into daily portfolio management practices.

List of abbreviations

CAUBO –	Canadian Association of University Business Officers: Non-profit professional organization representing the interest of administrative and financial officers in Canadian universities and affiliated colleges (www.caubo.ca)
CI –	Community Investing
ESG –	Environmental, social and (corporate) governance
Eurosif –	European Sustainable Investment Forum: Pan-European group that seeks to address sustainability through financial markets (www.eurosif.org)
REC –	Responsible Endowments Coalition: Network of students, alumni, and faculty from across North America, dedicated to advancing socially and environmentally responsible investment in college and university endowments (www.endowmentethics.org)
RI –	Responsible Investment
SEI –	Sustainable Endowments Institute: Organization engaged in research and education on the sustainability investment practices of higher education endowments (www.endowmentinstitute.org)
SHARE –	Shareholder Association for Research and Education: Vancouver-based social enterprise that coordinates and implements Responsible Investment Practices (www.share.ca)
SI –	Sustainable Investment
SIO –	Social Investment Organization: National non-profit association for the Socially Responsible Investment industry in Canada (www.socialinvestment.ca)
SRI -	Socially Responsible Investment
UBC –	University of British Columbia (www.ubc.ca)

UNEP FI – United Nations Environmental Programme Finance Initiative: global partnership between UNEP and the financial sector to understand the impacts of environmental and social considerations on financial performance (www.unepfi.org)

UN PRI – United Nations Principles for Responsible Investment: framework to consider the potential impact of ESG issues on the performance of investment portfolios (www.unpri.org)

UT – University of Toronto (www.utoronto.ca)

Definitions

In the field of **'Responsible Investment'** (RI), there is a lack of consensus on a definition of this concept (see Figure 1). This report regards RI as a broad investment approach that aims to integrate consideration of 'environmental, social and (corporate) governance' (ESG) issues into investment decision-making and ownership practices, and thereby improve long-term returns (UNEP Finance Initiative (UNEP FI) and the UN Global Compact , n.d.).

Figure 1. Terms associated with Responsible Investment practices

An '**ethical investment'** (EI) approach is commonly associated with efforts to address corporate harm issues through the exclusion and divestment of companies engaging in 'morally questionable' business practices. This investment approach originated among faith-based organizations with the introduction of ethical prohibitions or 'screens' on certain investments also known as 'sin stocks' (Entine, 2003, p. 353). Common screens for ethical investors include: alcohol, tobacco, gambling arms and, increasingly, issues associated with climate change. The European Sustainable Investment Forum (2006) also associates '**values-based investment**' with an approach to "follow the same strict ethical guidelines [institutional investors] set in their programs and also for their investment mandates" (p. 15)

'Socially Responsible Investment' can be understood as a comprehensive investment approach based on the notion that ESG factors are material to shareholder value. While an SRI approach typically includes investment screens, it also addresses factors such as corporate governance and management quality, allowing shareholders to voice their perspective on critical corporate issues while also protecting their interests as shareholders (Eurosif, 2006, p. 7).

'Sustainable investment' is an emerging investment method that relates the concept of sustainable development (meeting the needs of current generations without compromising the ability of future generations to meet their own needs) to a systematic integration of the long-term impact of ESG risks and opportunities into investment valuation, choice of assets and ownership practices (Krosinsky et al., 2008, p. xxii; Fox Gorte, 2008; Krosinsky, 2009). According to Robins (2008), sustainable investors recognize that physical, regulatory, competitive, reputational and social pressures are driving environmental and social issues into the heart of market practice and thus the ability of companies to generate value for investors over the long term (p. 6).

In recent years, the understanding of the acronym SRI has been shifting from its original meaning of 'Socially Responsible Investment' to represent 'Sustainable and Responsible Investment' (Krosinsky & Robins, 2008, p. xxiii). While this change may imply an evolution in the consideration of the kinds of factors that influence shareholder value over time, there are key distinctions between the two investment styles. Socially Responsible Investment, as adopted by many institutional investors up to now, focuses on the consideration of the material impact of ESG factors in financial decision-making as a way to fulfil their legal obligations to their clients and beneficiaries (Krosinsky & Robins, 2008, p. xxiii). The main underlying premise of 'sustainable investing' is that sustainably managed enterprises are better able to add value over the long term (Fox Gorte, 2008, p. 32).

'Economically targeted investments,' 'mission investment' and **'community investment'** are often associated terms. These terms generally refer to an investment approach whereby investors engage in strategic asset allocation with the objective of furthering their economic interests while also generating positive social and environmental impacts (SHARE, 2002, p. 19; REC, 2009, p. 8; More for Mission Campaign Resource Center, 2008, p. 6). To accomplish this, asset owners regularly adopt a triple bottom-line framework to evaluate investment performance, not only in terms of financial benefits but also positive social and environmental impacts (REC, 2009, p. 8).

'Mission investment' (MI) is a strategy that seeks to align an institution's financial investments with the mission of the organization (More for Mission Campaign Resource Center, 2008). To accomplish this, decisions about asset allocation within a portfolio focus on furthering an institution's mandate, recovering the invested principal and earning a financial return (Cooch & Kramer, 2007, p. 2). Mission-related investments provide institutional asset owners—such as charitable foundations, pension funds and university endowments—additional mechanisms to leverage their resources, other than conventional devices like grants (Cooch & Kramer, 2007, p. 7). Mission investments can be grouped into two broad categories based on their level of expected financial returns: 'market-rate' and 'below market-rate' MI's (Ibid.). Market-rate investments have risk-adjusted financial returns that are equal or superior to comparable investments of comparable risk (Ibid.; SHARE, 2002, p. 19). Conversely, investments in below-market mission-related investments usually result from a deliberate decision by capital owners to allow social and environmental returns to outweigh the lower investment returns

(REC, 2009, p. 8). Below-market investments are common among philanthropic foundations because they often allocate capital to areas where neither government nor private investors are willing or able to do so (Eurosif, 2006, p. 15).

'Community investment' (CI) is an investment strategy in which investors and lenders, both institutional and private actors, supply capital to communities (or initiatives) that are underserved by conventional financial markets (REC, 2009, p. 8). Through the action of intermediary institutions, community investments aim to fill gaps in conventional financial markets by providing access to credit, equity, capital and basic banking services to otherwise marginalized sectors (Ibid.).

Background

Over the last couple of decades, institutional investors such as pension funds, foundations and educational institutions have begun to take into account the potential impact of 'environmental, social and governance' (ESG) risks on financial asset management (Eurosif, 2006, p. 4). This investment approach, generally known as Responsible Investment (RI), is an evolving movement based on a growing awareness by the general population of the material impact of ESG factors on the long-term value of investments (Ibid., p. 11). ESG analysis frameworks aim to identify and address risks that can range from costs associated with environmental degradation or climate change, to dealing with the impacts of poor corporate governance or fraud. For instance, as the need to deal with the effects of climate change increase and more stringent regulations are enacted, companies that fail to curb their greenhouse gas emissions will eventually have to face fines, pay the cost of replacing obsolete technologies and address the negative public image of a polluting enterprise (Lucas-Leclin & Nahal, 2008, p. 49). Exposure to these risks has the potential to lessen a company's profits and shrink its market share.

The growth of the RI sector among large public pension and endowment funds in Canada reflects a consensus among the managers of these institutions that Responsible Investment represents a prudent policy for investment fiduciaries, according to the Social Investment Organization (SIO), the non-profit association of the Responsible Investment industry in Canada (SIO, 2009, p. 22). In 2008, $544.13 billion in pension and endowment assets were invested in relation to Responsible Investment policies (Ibid.). This amount represented a 26% increase from the $433.07 billion reported in the SIO's previous study in 2006 (Ibid.).

Notably, institutional investors—which include pension and university endowment funds, as well as banks, mutual funds and hedge funds—comprise the fastest growing and largest source of investments in the RI sector. Endowment and pension funds, whose mandates are to both maximize investment returns and fulfil social purposes, increasingly allocate capital to areas where neither government nor conventional financial markets are willing to do so. Some funds, for example, are investing in community development projects, water issues and programs to fight HIV/AIDS among marginalized communities. Institutions with two slightly different interests will continue to drive growth in the RI sector: those with a wish to solely address economic, social, ecological and/or educational issues; and those with a growing interest in aligning the profit objectives of the institution with these issues (Eurosif, Op. Cit. p.11; Strandberg, 2005, p. 3).

The Moral and the Business Case for Responsible Investment

Generally, there are two main rationales for engaging in RI practices: the first is known as the 'moral or values-based case' and the second as the 'business or fiduciary case' (SHARE, 2008, p. 2; SIO, 2009, p. 7; Chapman, 2009) (see Table 1).

Table 1. The moral case and the business case for Responsible Investment

	1st Approach (Moral case)	2nd Approach (Business case)
Type of framework	- Ethical investment (EI) - Values-based investment - Mission investment - Social Finance	- Responsible Investment - Socially Responsible Investment (SRI) - Sustainable investment - Sustainable and Responsible Investment
Focus	- Moral issues - Faith-based - Human rights - Community development	- Fiduciary duty - Environmental, social and governance (ESG) risks and opportunities - Long-term value creation and intergenerational equity - Active ownership

Criteria/tools	- Divestment and boycott of unethical businesses - Negative screens – Tobacco, Sudan, oil sands, nuclear energy, abortion, gambling, etc. - Positive screens – Social housing, renewable energy, water, etc.	- Active engagement with management to address risks, corporate harm and emerging opportunities based on ESG factors - Positive screens/best in class - Exercise of shareholders' rights to influence corporate behaviour (proxy voting) - Fiduciary duty to consider the potential impact of non-financial issues on investment performance
Decision-making	- Prescriptive (no 'sin stocks' or best-in-class) - Often based on a pre-defined criteria.	- Deliberative - Based on analysis and public input
Financial considerations	- Screens might exclude important sectors and affect financial performance	- An RI framework can enhance financial analysis by addressing ESG risks - Higher implementation costs typically offset by participation of university stakeholders

The Moral Case for Responsible Investment

The moral case for Responsible Investment stems from ethical standards of behaviour and a moral expectation that companies will avoid corporate practices that are harmful to people, animals and the environment (SHARE, 2008, p. 2; Mackenzie, 1997). The moral argument assumes that corporations and their shareholders have a moral responsibility to adhere to positive societal values such as environmental conservation, good corporate governance and social justice (Ibid.). Proponents of the moral case for RI often include institutional investors, such as pension plans, philanthropic foundations and faith-based organizations. The moral case approach emphasizes boycotts and divestment from 'morally' questionable assets. This approach has been relatively familiar to university administrators since the 1980s when several institutions adopted divestment policies from companies perceived to advance the apartheid regime in South Africa. Some jurisdictions even introduced regulations that require institutional investors to divest from 'unethical' practices such as the manufacturing of cluster bombs

(Chapman, 2009). In the academic context, strong student activism has consistently engaged in highly visible divestment campaigns on controversial issues such as tobacco, Sudan and Darfur.

Indeed, society expects civic institutions to behave and conduct their affairs in a manner that is consistent with their social mandates. For example, investing in companies that produce cigarettes would be contradictory and potentially damaging to the reputation of a foundation whose mission is to fight lung cancer. This situation could also encumber a foundation’s ability to raise capital among donors that disapprove of investments in the tobacco industry. Reputational risk is also a significant concern for universities. If a university is perceived to be acting contrary to its institutional values, it might harm its ability to attract new endowment funds (Chapman, 2009). Companies have also found that their consideration of corporate social responsibility is meaningful to their ability to recruit new talent (Ibid.). Similarly, universities might find that their consideration of the social impact of their investments is relevant to their ability to recruit students, faculty and staff.

Colleges and universities certainly bear a great deal of social responsibility. These institutions are responsible for the creation and dissemination of knowledge, for the instruction of technical skills and for upholding standards of proper behaviour. There is, however, a sensible challenge to Responsible Investment practices among universities from a moral standpoint (see Table 2). An intrinsic feature of academic environments is the co-existence of a diverse set of values, views and priorities. For this reason, it can be difficult to make moral decisions that appropriately represent the collective values of a university.

Table 2. Challenges to the moral case among universities

Examples of challenges to a moral case for RI among universities	
'A university, as a general rule, is not a place that takes positions on political, social, or moral questions, apart from those that directly affect higher education and academic research. Rather, a university is a place for the rigorous, free, and open debate of those very political, social, and moral questions. The more that the university seems to endorse a particular stance, the less it seems to be an open place for discussion. In the case of the question of divesting from South Africa - an issue with which many universities wrestled - it was never a question of whether apartheid was wrong. Instead, the question was about the university's proper role. One thing we learned, coming back to responsible investment, was that it is important to have an opportunity to discuss these sorts of issues.' Anthony Gray, Special Advisor to the President University of Toronto	'Discussions about the definition of ethical standards and who should make those decisions has been a major stumbling block for RI among universities. If you think of responsible investment primarily on the basis of removing certain investments because of personal values, then you will likely end up in a debate of conflicting ethical views. A university could attempt to articulate the values it holds in relation to investment as a leader in the community and as an organization that wants to maintain its reputation. It could also look to the kind of international aggreements to which Canada is signatory (i.e. UN Global Compact, International Labor Standards, Universal Declaration of Human Rights, etc). ' Peter Chapman, Executive Director Shareholder Association for Research and Education

In order to articulate how their institutional values relate to their investment practices, some universities engage wide public input to inform their policies and investment priorities. Columbia University, for example, hosts an annual town hall meeting where students, faculty, alumni, staff, and other affiliated individuals are invited to present their views on the university’s ethical and social responsibilities as an investor of its endowment (ACSRI, 2007a). As a result of these meetings, Columbia University’s Advisory Committee on Socially Responsible Investing has engaged in formal research into issues of sustainability, community investing, proxy voting guidelines, labour rights, arms manufacturing, and lesbian, gay, bisexual, transgender (LGBT) friendly companies (ACSRI, 2009).

The Business Case for Responsible Investment

The business case for RI, on the other hand, is based on the notion that ESG issues have a material impact on investment returns and therefore must be considered in financial-decision making (SHARE, 2008, p. 2; SIO, 2009, p. 7). In the business case approach, it is not necessary to adopt ethical constraints related to the acquisition or disposal of securities. The goal of investors that adopt the business case approach is to maximize returns by recognizing and addressing non-financial risks associated with their investments (Ibid.). The business case approach involves influencing ESG issues through active engagement with management and shareholder activism. This deliberative approach to RI among academic institutions is relatively new and unfamiliar to university administrators. This approach is based on recent developments in the Responsible Investment arena and builds upon the recognition of the material impact of non-financial issues on the future performance of investments.

The present report, consistent with efforts to mainstream Responsible Investment among pension funds and other major financial institutions, focuses on the business or fiduciary case as it applies to colleges and universities. However, both rationales for Responsible Investment are suitable and, in fact, apply to academic institutions. In other words, university trustees certainly have a legal responsibility to maximize investment returns for the benefit of current and future generations of faculty, staff and students. At the same time, trustees need to consider the moral obligations of their institutions in relation to their investment practices.

Investment policies that contradict a school's mission can undermine its reputation, not only in the public eye but also within its own academic community (REC, 2007, p. 8; Chapman, 2009). Universities need to implement mechanisms to ensure that conventional passive investment strategies—which ignore the social and environmental impacts of the businesses in which the shareholder is invested—are in agreement with the clearly articulated missions, values, and polices of institutions of higher learning (Ibid.). The present report offers several suggestions that academic institutions can consider in order to develop forward-looking and comprehensive RI policies.

Fiduciary obligations of university trustees

> *'Universities educate most of the people who develop and manage society's institutions. For this reason, universities bear profound responsibilities to increase the awareness, knowledge, technologies, and tools to create an environmentally sustainable future.'*
>
> *Talloires Declaration, ULSF, 1990*

In light of unprecedented economic, social and environmental crises around the world, what are the obligations of universities and the trustees that make financial decisions on behalf of these institutions?

Academic institutions and the endowments that support their mandate are supposed to exist in perpetuity. When a benefactor makes a gift to a university, the administration often invests these resources in various financial instruments (UBC, 2007, p. 5). In order to provide education, society grants universities a great deal of autonomy, resources and fiscal benefits. A portion of the income generated from those investments supports current institutional needs, such as the construction of new research facilities, professorships and student scholarships. The rest is re-invested to protect the capital base against inflation. This approach to managing endowments ensures that donations retain or increase their value over time and that the endowment distributions benefit existing and future generations of faculty and students (Ibid.).

Universities began to take social and environmental issues under more serious consideration with the signing of the Talloires Declaration, a voluntary mandate established in 1990 by a group of 22 university administrators who came together at an international conference in Talloires, France (ULSF, 1990). The Declaration acknowledged the importance of academia in influencing society and the economy through their curricula, research and institutional operations (Ibid). The Declaration embodied a series of commitments to address professional gaps by establishing educational programs to generate expertise in environmental management and sustainable economic development (Ibid.). To date, over 400 college and university signatories to the Declaration have pledged to ensure all university graduates are environmentally literate and responsible citizens (ULSF, 2009).

Fiduciary Duties and RI

By legislation, fiduciary duty and investment responsibility for the management of a university's assets ultimately rest within its board of trustees (Chapman, 2009; Responsible Investment Working Group, 2006; Krosinsky, 2009; Goel, 2009). The concept of fiduciary duty is normally associated with the notion that trustees assume an obligation to act prudently and loyally while managing investments to further the interest of the (university's) beneficiaries (Chapman, 2009; Freshfields Bruckhaus Deringer LLP, 2005, p. 8). Prudence in the investment context generally requires the obligation to exercise reasonable care, skill and caution in pursuing an overall investment strategy that incorporates risk and return objectives set out by the trust (Freshfields Bruckhaus Deringer LLP, 2005, p. 8; Responsible Investment Working Group, 2006, p. 13). Loyalty in this instance refers to the duty that the trustees have to manage responsibly the funds held in trust and to act in the best interest of the beneficiaries of the trust (i.e., trustees cannot divert assets in the fund for personal gain) (Chapman, 2009).

Historically, there has been a prevalent perception among investment decision-makers that they are legally required to maximize financial returns and that the courts will overturn decisions made without a profit-maximization objective in mind (Ibid. p.9). For jurisdictions based on a common law system, this notion largely stems from the 1985 ruling of the *Cowan vs. Scargill* case.

The Freshfields' report, a study sponsored by the United Nations Environment Programme Finance Initiative (UNEP FI), is often noted for making an authoritative argument for the legality of considering ESG issues in investment decisions (Responsible Investment Working Group, 2006, p. 12; Viederman, 2008, p. 190; UNEP FI, 2009). The purpose of the Freshfields' report was to understand whether the commonly held view that fiduciary duties require a portfolio manager solely to pursue profit maximisation was a correct interpretation of the law or whether acting in the interests of beneficiaries can also incorporate other objectives (Freshfields et al., 2005, p. 6). To write the report, the international law firm Freshfields Bruckhaus Deringer analyzed the applicable laws of nine jurisdictions around the world.[1] The Freshfields' report concluded that as "*the links between ESG factors and financial performance are increasingly being recognized […], integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions*" (Ibid. p. 13).

Cowan vs. Scargill

Subject to statutory exceptions, the UK decision on Cowan vs. Scargill has generally been thought to apply to the Canadian context. The case concerned the proper investment of a pension trust. Investment decision-makers have widely interpreted the case as holding that financial returns must be maximized on an investment-by-investment basis.

The Freshfields' Report disputes this interpretation of the holding and argues that the case does not support a general rule of profit maximization. Rather, the case simply holds that trustees must exercise their fiduciary duties in a manner that respects the original purpose for which they were granted. In the University's context, that purpose would presumably be to achieve an indicated level of financial return.

Source: (Responsible Investment Working Group, 2006, p. 13)

The Freshfields' report recognizes that the definitions of moral and legal standards of behaviour are in constant evolution (Freshfields Bruckhaus Deringer LLP, 2005, p. 19). As corporate and investment systems have become more complex, the laws that govern the duties of fiduciaries have also evolved over time (See Table 3). For example, as there is more evidence that anthropocentric impacts on climate change and the diminishing

[1] The jurisdictions included in the Freshfields study were: France, Germany, Italy, Japan, Spain, the U.K., the U.S, Canada and Australia.

stock of natural resources around the world have the potential to inflict harmful consequences on a global scale, responsible fiduciaries are those that examine the risks of environmental and social issues on the material long-term value of assets under their control (Goel, 2009). At the same time, the challenges of climate change and ecological degradation also represent an opportunity to capitalize on the need to develop the appropriate technologies and services required to transition to a more sustainable economy. In fact, the intervention and allocation of resources by both financial markets and academic institutions is an essential factor to achieve this transition.

Table 3. Expert advice on the evolving nature of fiduciary duties

The Evolution of Fiduciary Duty
'Fiduciary duties are duties that common law jurisdictions impose upon a person who undertakes to exercise some discretionary power in the interests of another person in circumstances that give rise to a relationship of trust and confidence. The circumstances in which fiduciary duties will apply are not fixed because they are a product of case law rather than statute, but courts in the common law jurisdictions discussed in this report have all held that a principal exercising the role of 'trustee' will owe fiduciary duties to beneficiaries under the trust.' Freshfields' Report (Freshfields Bruckhaus Deringer LLP, 2005, p. 19)
'The definition of prudence and trustee responsibility that governs our understanding of fiduciary responsibility has evolved over time. As more evidence unfolds supporting the connection between sustainability and financial performance, those who do not consider these factors in investment decisions could ultimately leave themselves open to charges of imprudence.' The Prudent Trustee (Emerson & Little, 2005, p. 2)
'Some people argue that the current 'short-termism', the failure to acknowledge some of the major environmental damage being done by current investment practice breaches trustees' duties to be even-handed to the different generations of beneficiaries.' Peter Chapman, Executive Director, SHARE, 2009
'As financial transactions and investment vehicles become more specialized and complex, fiduciary duty must expand to encompass our greater knowledge and understanding of the long-term social and environmental costs, as well as the benefits associated with investment decisions. Risks and opportunities must be assessed more prudently in the context of climate change. This includes the science and economics of climate risk, and also the political processes nationally and globally that will affect investment decisions.' Stephen Viederman (2008, p. 192)

> 'The concept [of fiduciary duty] is different depending on the jurisdiction. However, the main idea amongst all analysts and jurisdictions is that when you are acting as a fiduciary, when you are investing someone else's money, you have to act as a prudent person would. Historically, some people have interpreted that as meaning that 'you can only have regard for financial considerations'. More recently, and in a sense not really new, just posing it differently, is that anything that is material to financial performance should always be taken in consideration.'
>
> Ran Goel, Associate, Sidley Austin LLP, 2009

The legislation of several jurisdictions reflects the evolving understanding of the materiality of ESG issues. In the UK, for example, the laws applying to investments of pension funds require trustees to document the extent to which social, environmental, and ethical issues are taken into account in the selection, retention and sale of investments (Acharya and Dimson, 2007, p. 270). In other instances, financial regulations may sanction the disposal of assets based on ethical grounds. For example, a piece of legislation in the Canadian province of Ontario permitted the sale of assets of companies that were perceived to support the apartheid regime in South Africa (Chapman, 2009). Recent emerging divestment efforts based on environmental issues, such as mountaintop removal mining or human rights violations in countries like Sudan, could lead to further restrictions on investments.

University trustees, as institutional fiduciaries, are subject to a wide range of other fiduciary duties, principally in relation to the academic mandate of the institution (Chapman, 2009). They are also responsible for protecting the reputation of the institution. To accomplish this, trustees are required to make decisions on very complex investment and academic issues. In practice, however, investment responsibility and the management of a university's resources fall under the authority of several agents. As RI becomes an increasing priority for prudent investment practice, many universities are implementing RI practices as a mechanism to provide formal and ongoing advice to university administrators regarding ESG issues affecting the university's investments. RI is also being used as a tool to engage a diverse group of viewpoints and stakeholders in discussions about the impact of corporate and financial practice in social and environmental issues.

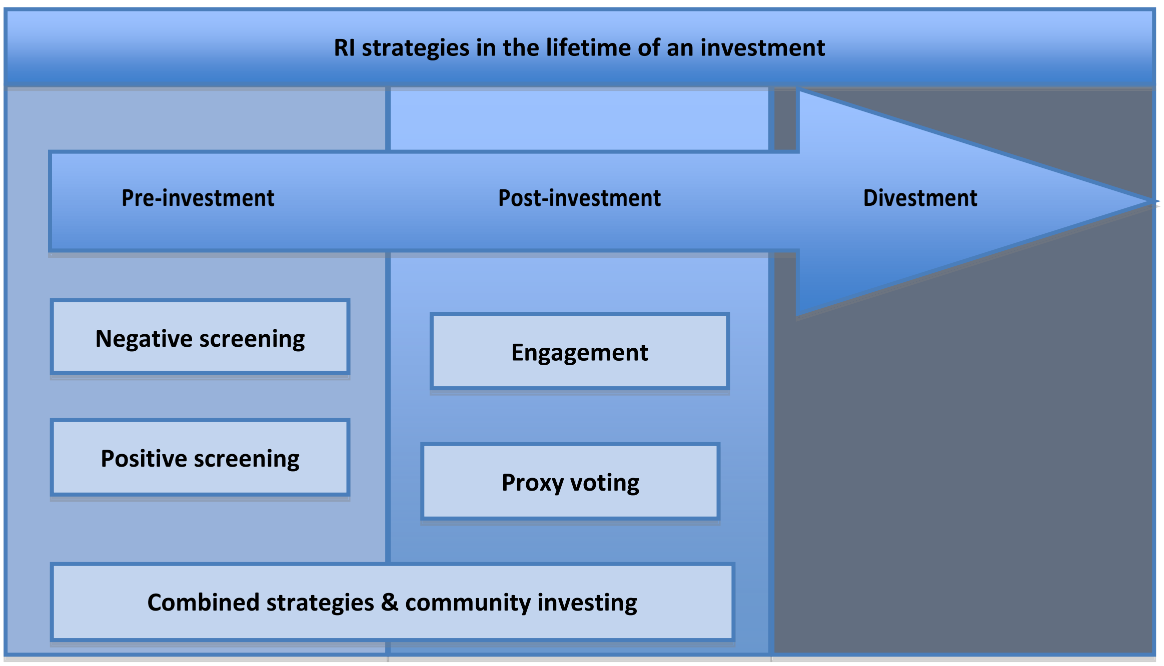
Responsible Investment Practices

There are four main activities or strategies of Responsible Investment practices: 1) investment screening, 2) shareholder engagement, 3) proxy voting, and 4) economically targeted investment, mission or community investment (SHARE, 2008, p. 9; REC, 2007, p. 2; Eurosif, 2006). Particular to academic institutions is the creation of multi-stakeholder advisory groups to develop and implement RI strategies. While the present section makes mention of the role of these committees in relation to the four main Responsible Investment strategies, a subsequent section will explore in detail the ways in which these advisory groups support university trustees with financial decision-making.

The key question for a trustee considering the effects and methods of RI is: What strategy is most likely to successfully attain the goals set out by investors? (Eurosif, 2006, p. 28). The answer depends on the particular objectives and values of each institution (Ibid.). An equally important question refers to the process by which an institutional investor, like a university, may identify the collective 'values and priorities' of the institution's members. This process is essential in order to establish positions on the suitability of corporate practices to deliver shareholder value and, in the case of moral approaches to investing, to establish whether a company's activities are ethical or not (Mackenzie, 2007, p.159). Deliberation is, in fact, a necessary aspect of a well-constructed Responsible Investment framework as it can help to produce the persuasive arguments required to engage effectively with companies that investors want to influence (Ibid.).

Most Responsible Investment frameworks include a combination of complementary strategies. To design a Responsible Investment strategy, investors need to take into account their financial goals, their ability to leverage assets under their control and the opportunity to collaborate with other asset owners to address emerging risks. Moreover, depending on the stage in the investment-cycle, investors can use different approaches to address a wide range of ESG issues (See Figure 2) (Eurosif, 2006, p. 28). Screening, for example, is a strategy that takes place before investing (Ibid.). Engagement and voting take place when the investor already owns the stock (Ibid.). Community investments, on the other hand, embody ongoing processes wherein investors combine long-term financial, environmental and social goals.

Figure 2. RI strategies along an investment continuum



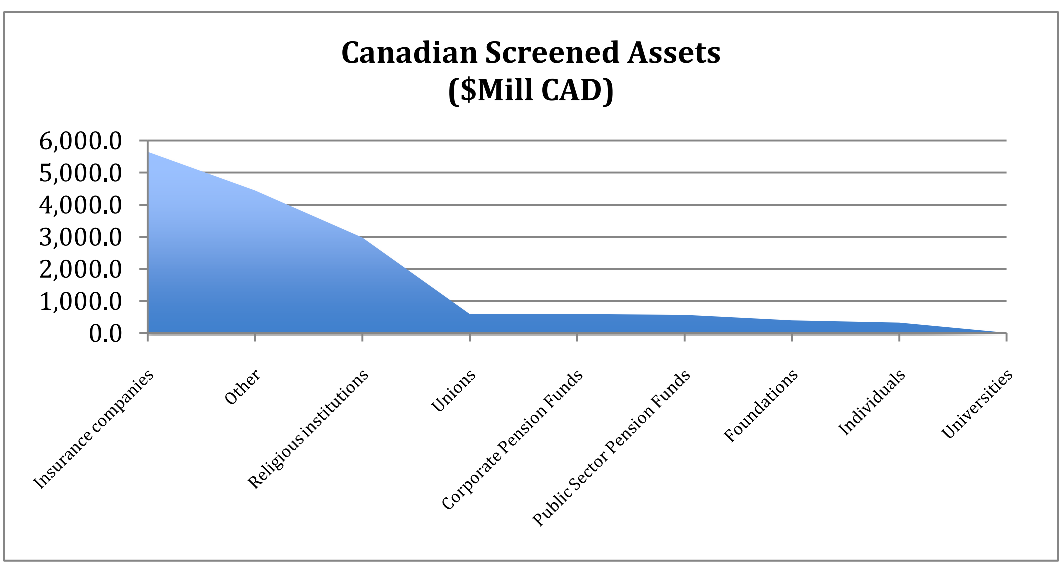
Source: Adapted from (Eurosif, 2006, p. 28)

The threat to divest of securities that fail to meet financial and/or ESG benchmarks is an additional tool for shareholders that wish to influence corporate practices. Divestment can drive down the price shares because of the law of supply and demand (Mackenzie, 1997, p. 139). A downward movement in share prices would be of concern to managers because they have an ultimate responsibility to maximize shareholder value (Ibid.). Additionally, lower shareholder prices also imply that the cost of raising capital would increase and further shrink corporate profits (Ibid.). Increasingly, however, the effectiveness of divestment efforts have been called into question (Ibid. p. 137) and they are usually regarded as the last resource to address corporate governance and protect investment returns.

1) Investment Screening

Investment screening is a process whereby investors evaluate positive and negative criteria to select or reject investments (SHARE, 2002, p. 16). According to their latest study, the SIO estimates that approximately $27.56 billon in Canadian assets incorporated social or environmental screens during 2008 (SIO, 2007, p. 5). The insurance sector and religious institutions alone represented over one half of screened assets under management (See Figure 3). However, the SIO also found that screened assets of Canadian universities only amount to $11 million, representing 0.07% of the total assets subject to screening (Ibid.).

Figure 3. Total amount of screened assets in Canada in 2008



Source: Adapted from (SIO, 2009, p. 10).

To implement investment screening, universities can establish their own criteria for all or part of their portfolio (see Table 4). The advantage of developing screens is that they can provide an explicit and prescriptive methodology that allows trustees to differentiate between investment choices (Eurosif, 2006, p. 29). Once a university develops screening criteria for its investments, it can simply communicate the policy to its investment managers.

Quite often, however, written screening policies fail to provide sufficient direction to university administrators and their investment managers (Shareholder Association for Research and Education (SHARE), 2002, p. 17). This can lead to confusion and may require the intervention and clarification of the university trustees. A sensible policy would also ensure trustees have the flexibility to deviate from the screening policies when the application of the criteria is not in the best interest of the university (Ibid.).

Table 4. Considerations for developing a screening strategy

Issues to consider in investment screening strategies by universities
- Types of screens that are most appropriate for the institution;
- Frequency at which the board of trustees should review the screening guidelines;
- Ways in which different university constituencies can provide input about the criteria;
- Benchmarks that will be applied to test performance;
- Screening criteria that allow adequate porftfolio diversification and return target?;
- Type of resources that will be required to design and implement screens;
- Portion of the university's portfolio to which the screens are applied;
- Under what circumstances the trustees and their agents can deviate from the policy;

Source: Adapted from (SHARE, 2002, p. 18)

Negative Screening

Negative screening consists of excluding or barring investing in certain companies, economic sectors or even countries due to concerns over ESG issues (Eurosif, 2006, p. 28). Negative screening is often considered the genesis of the Responsible Investment movement. It emerged as religious investors started excluding investments in so-called 'sin stocks' (Ibid.; Mackenzie, 1997, p.59). Investments typically barred through negative screening commonly include: gambling, tobacco, pornography, armament and nuclear weapons. Columbia and Brown University use screens against tobacco and companies whose businesses are perceived as supporting the Sudanese government's actions in Darfur (De Schepper, 2009; Putterman, 2009).

According to Eurosif (2006, p. 28), investors can use screening strategies in order to:

- address specific risks within their portfolio;
- communicate an ethical stance with members and the public;
- help guard an institution's reputation; and
- uphold an investment policy.

Some studies suggest that an investment policy based on stock exclusion alone can have a detrimental impact on investment returns (Acharya & Dimson, 2007; Hong & Kacperczyk, 2009). Extensive negative screening can potentially increase risks by diminishing sectors and geographical allocations within an investment universe (Eurosif, 2006, p. 28).

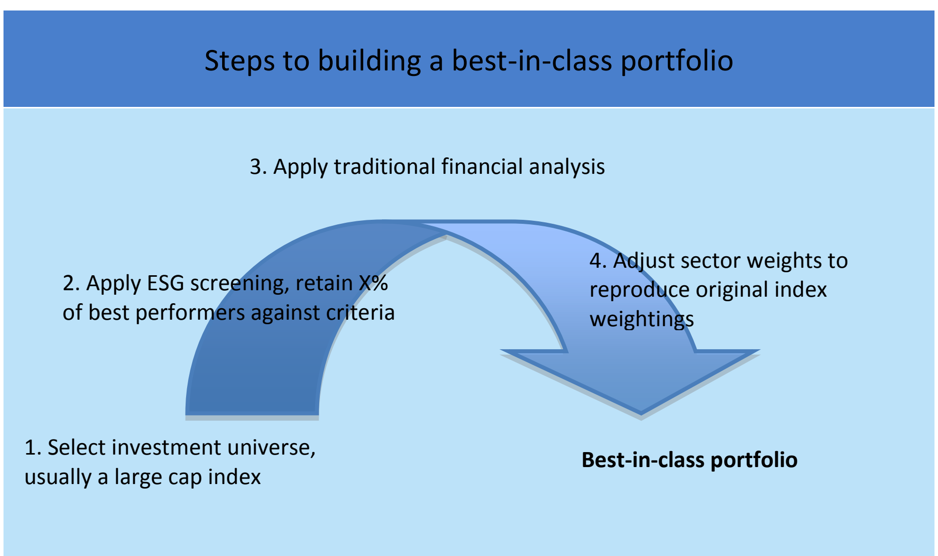
Positive Screening

Positive screening refers to the selection of stocks of companies within a given investment universe that perform best against a pre-defined criterion (Eurosif, 2006, p. 29). Depending on the interests of investors, screens may encourage investment in companies that uphold certain standards or that focus on sectors which are perceived to promote investor missions and values (REC, 2007, p. 12). Positive screens may include, for example, investments in renewable energy, sustainable forestry, or community development financial institutions (Ibid.). Positive screens are often based on a 'triple bottom-line approach' whereby investors expect companies to perform well on social, environmental and economic factors (Eurosif, 2006, p. 29).

A central argument for using a positive investment approach is that it encourages companies to improve their performance against an investment benchmark in order to be included in an investor's portfolio (SHARE, 2002, p. 16). Some investors regard positive screening as a highly accountable strategy due to its systematic approach to considering financial and non-financial factors when making investment-related decisions (Eurosif, 2006, p. 29; SHARE, 2002, p. 17).

The most popular form of positive screening is called **'best in class'** (Eurosif, 2006, p. 29). Under this approach, investors evaluate companies against standards of best practice in their particular industry (SHARE, 2002, p. 16) (See Figure 4). An advantage of the best-in-class approach is that it allows investors to select stocks within each sector of a given index and maintain an adequately diversified portfolio (Ibid.).

Figure 4. Best-in-class investment approach



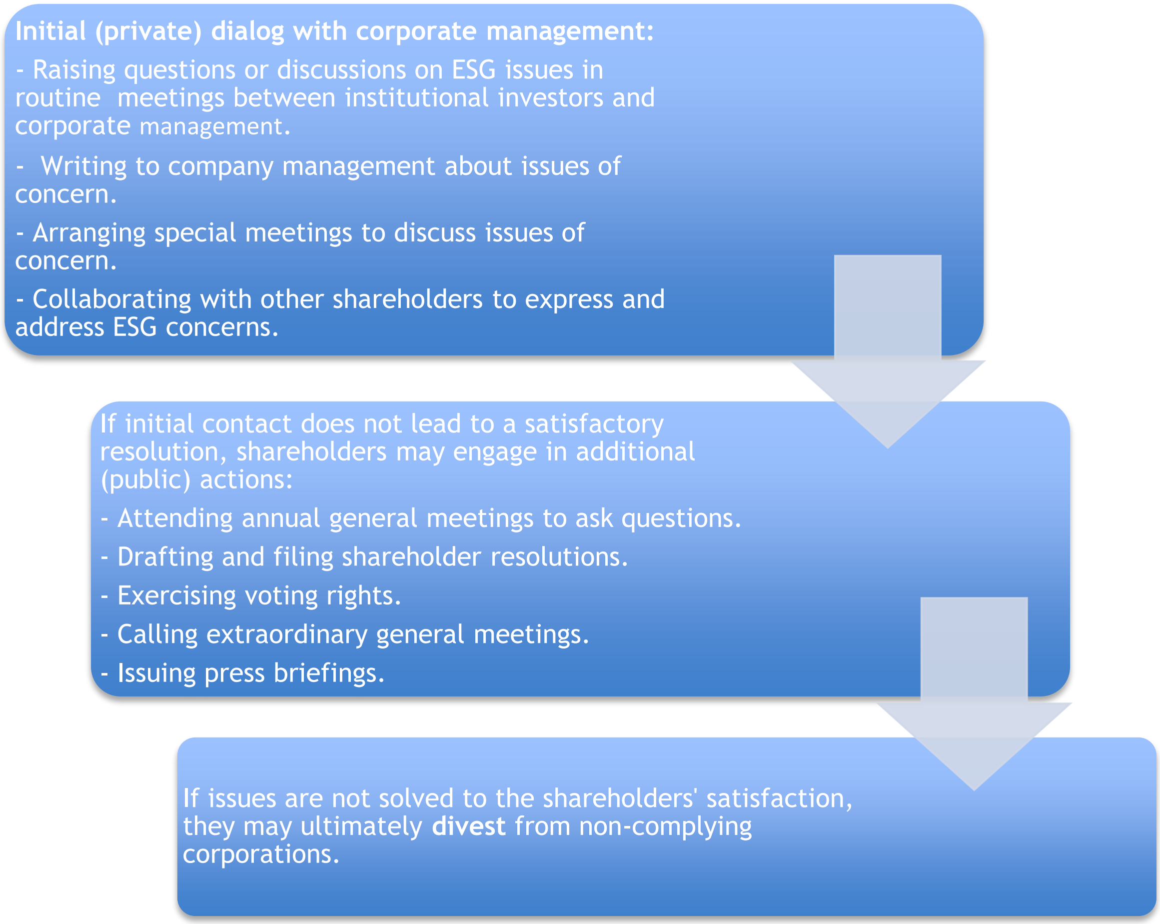
Source: (Eurosif, 2006, p. 30)

2) Shareholder Engagement

Shareholder engagement is an RI strategy whereby shareholders actively seek to influence the behaviour of corporations within an investment portfolio to improve their ESG performance (SHARE, 2008, p. 10). The goal of engagement is to create a constructive dialog with companies held in a fund to address non-financial risks and thereby improve long-term corporate performance (Ibid.).

For the most part, shareholders using engagement strategies assume an incremental approach to communicate with corporate management on issues that might affect the long-term shareholder value of their investments (Canadian Shareholder Association for Research and Education (SHARE), 2002, p. 8) (see Figure 5). ESG engagement issues often include: corporate strategies, operational performance, inappropriate remuneration levels, failure to comply with the law and, increasingly, issues associated with ecological concerns and climate change (Eurosif and the Bellagio Forum (Eurosif, 2006, p. 32). Shareholder engagement on social or ecological issues has become an in creasing phenomena, stemming from an activist stance adopted by a number of shareholders to advance issues that matter to them (Ibid.) Engagement actions usually emerge from a proactive shareholder interest to identify and address ESG issues (Ibid.). Engagement also arises as a reactionary dialog after a corporate scandal to prevent corporate injury from happening in the future (Ibid.).

Figure 5. Incremental engagement actions to address ESG issues.



Source: Adapted from (Eurosif, 2006, p. 32; SHARE, 2002, p. 8)

Engagement as an RI strategy offers numerous strategies to enhance long-term corporate performance and further the interests of investors (SHARE, 2002, p. 9). Engagement frameworks as an area of Responsible Investment has resulted in the formation of dynamic and practical collaboration schemes among institutional investors, particularly among investors with strong social mandates. The Responsible Endowments Coalition (REC) is a good example of a diverse academic network engaging in collaborative investment action. The REC supports students and other university members in their efforts to persuade academic institutions to invest responsibly and proactively and to support corporate reform in areas such as human rights, environmental justice, and equal opportunity. To accomplish this, the coalition provides training, conferences, workshops and printed materials to educate people so that they are empowered to pursue the strategies that they consider are best for their campus (Weber, 2009).

Shareholder Engagment Through the Responsible Endowments Coalition

The REC links 95 campuses through student groups interested in pursuing responsible investment. Of those campuses, at least 30 have a committee on investment responsibility and more formal relationships with REC. REC promotes collaboration among these committees and the sharing of resources so that there is no replication of the same work.

When Bard College filed a resolution at MacDonald's (on pesticide use reduction), they made it known that they would welcome the involvement of other universities in supporting letter writing or even voting on the resolution. The initiative did not end up going to ballot since they settled before that. However, the network drummed up support for that initiative. Likewise, Loyola University in Chicago has reached out to a number of universities in different letters that they have signed advocating the universities to join them in their shareholder engagement. They have also joined with other institutional investors as part of the Interfaith Centre for Corporate Responsibility.

Source: (Weber, 2009; REC, 2009)

Shareholder engagement entails exercising the legal prerogatives and responsibilities associated with stock ownership (REC, 2007, p. 10). A key rationale for the use of engagement actions is that corporate management will generally prefer to address issues of concern to shareholders before grievances are discussed publicly and affect short-term stock value (Ibid.; Eurosif, 2006, p. 33). Sometimes, simple dialog between corporate management and concerned shareholders is enough to draw attention and initiate corrective action to address ESG risks and shareholder concerns. However, if successive dialogues do not resolve ESG issues and investors feel the matter needs consideration by all of the company's shareholders, active investors might file a resolution that will be printed in the company's annual proxy statement and put before all shareholders for voting at the annual general meeting (REC, 2007, p. 10).

A significant feature of engagement as an RI strategy is that it does not require fundamental changes in investment selection. Engagement keeps investment options open and only takes place after shareholders identify a need to address ESG risks in the businesses in which they invest (Eurosif, 2006, p. 32). However, university trustees that wish to incorporate active ownership practices need to consider the required allotment of time and resources necessary to effectively engage with corporate leadership. Generally, institutional investors can integrate engagement strategies by building in-house capacity, through the action and delegated mandate of their investment managers or by hiring a dedicated engagement service (SHARE, 2008, p. 10). As mentioned, universities establish advisory committees in order to facilitate engagement activities and to provide recommendations to university trustees on Responsible Investment issues. Based on a survey of universities and colleges, Table 5 outlines key considerations in the development of an engagement strategy.

Table 5. Considerations for developing an engagement strategy

Issues to consider in engagement strategies by universities
- Engagement can be useful to minimize investment risk, influence economic practice and address corporate harm.
- Financial decision-making is based on the legal expectation to act in the best interest of current and future generations of university members.
- Surveying university members may help focus engagment efforts by identifying common values and areas of priority.
- Determine who will coordinate the engagement activities, represent the university in discussions with corporations and stablish a process to determine if incremental action is necessary.
- Multi-stakeholder advisory groups at universities facilitate engagment activities, reduce costs, build in-house capacity and leverage institutional assets.

Source: Adapted from (SHARE, 2002, p. 10; SHARE, 2008, p. 11; REC, 2007, p. 11)

3) Proxy Voting

Attached to the voting shares of every public company is a proxy that gives investors the legal right to vote on a number of shareholder and management proposals (SHARE, 2002, p. 11; SHARE, 2008, p. 9). When a corporation’s shareholders come together at the annual general meeting, the voting of proxies gives them an opportunity to get together with other investors to pursue common interests address ESG risks, and ensure long-term shareholder value (Eurosif, 2006, p. 35).

A central notion of proxy voting as an RI strategy is that it recognizes that trustees already have a legal obligation to ensure that the voting of all proxies is in the best interests of a fund's beneficiaries (SHARE, 2002, p. 11). Canadian mutual funds, subject to the oversight of provincial and territorial securities regulators, are required to publicly report proxy-voting policies and disclose their voting records (SIO, 2007, p. 8).

Commonly, voting is non-binding on management, even if resolutions are passed by a majority of shareholders (Eurosif, 2006, p. 35; REC, 2007, p. 14). It is also common for asset owners, particularly those who invest in pooled funds, to delegate the actual voting of proxies to the discretion of an investment manager (SHARE, 2008, p. 9).

In the past, there has been little interest on behalf of asset owners in voting at shareholder meetings and most investors tended to vote along with corporate management (Eurosif, 2006, p. 34). This tendency is changing, specifically as shareholders recognize that voting rights represent an important tool for communicating expectations to corporate management on key ESG issues (SHARE, 2008, p. 10).

Proxy voting guidelines at Brown University

The idea of establishing proxy voting guidelines is to make the advisory committee's work more efficient by setting out principles that would govern recommendations in matters that arise frequently in shareholder proposals. This approach helps to improve consistency across recommendations on similar proposals brought before different companies.

The guidelines were discussed, drawn up, and voted on by all committee members. Then they were submitted for approval by the governing body of the university, the Brown Corporation, and in most cases they were approved as proposed. If not, the committee discussed and decided on any recommended revisions. The committee revisits the question of whether any members wish to change the guidelines at least once a year.

Source: (Putterman, 2009)

There is not a 'right way' to engage in proxy voting (Eurosif, 2006, p. 35). However, for many investors, proxy voting represents an initial approach to exercise Responsible

Investment practices (SHARE, 2008, p. 10). In order to adopt the voting of proxies as an RI strategy, investors need to develop and implement comprehensive voting policies (Eurosif, 2006, p. 35; SHARE, 2008, p. 10). A voting policy must provide direction on how to vote proxies on issues relating to the governance, business affairs and social and environmental practices of corporations (SHARE, 2002, p. 12).

Most universities that have established Responsible Investment advisory groups focus on analyzing and providing recommendations on proxy votes (Weber, 2009). Columbia University, for example, uses a proxy voting service and filters shareholder's proposals that deal mainly with environmental and social issues (De Schepper, 2009). Corporate governance issues such as votes on mergers and acquisitions and the election of board members are not often discussed by the advisory group, except for cases of diversity of board members (Ibid.). However, there has been a trend among endowment portfolios toward reducing their investments in direct holdings. As a result, the ability of universities to express their concerns over corporate practices through proxy votes is also in decline (Weber, 2009). Instead, universities are focusing on implementing other RI strategies such as community investing (Ibid.). Based on a survey of universities and colleges, Table 6 outlines key considerations in the development of a proxy voting strategy.

Proxy voting in a pooled fund

Because smaller pension plans or (university) endowments often invest through pooled funds, they may find themselves with more limited proxy voting options. Investors in pooled funds generally cannot direct the voting of proxies.

However, they can try to negotiate an arrangement to permit the voting of a proportionate number of the pooled fund's proxies according to individual fund guidelines.

At the least, funds in this situation should advise investment managers of their voting preferences and request a voting report on how the pooled fund's shares are voted.

Source: (SHARE, 2008, p. 10)

Table 6. Considerations for developing a proxy voting strategy

Issues to consider to in proxy voting by universities
- Voting polices must recognize that ultimate responsibility for financial-decision making at the university rests with the school's trustees.
- Determine how the institution is currently voting proxies.
- Identify ways in which university members can provide input about the institution's voting practices.
- After developing voting guidelines, what will be the process to ensure that those responsible for voting proxies adhere to the guidelines.
- In the absence of voting guidelines or where policies do not provide enough clarity on the issue in question, who decides how to vote proxies and based on what criteria.
- An active voting strategy requires regular reporting on how proxies are voted as well as a regular review of the voting policy to address evolving ESG issues.

Source: Adapted from (SHARE, 2002, p. 14; SHARE, 2008, p. 10)

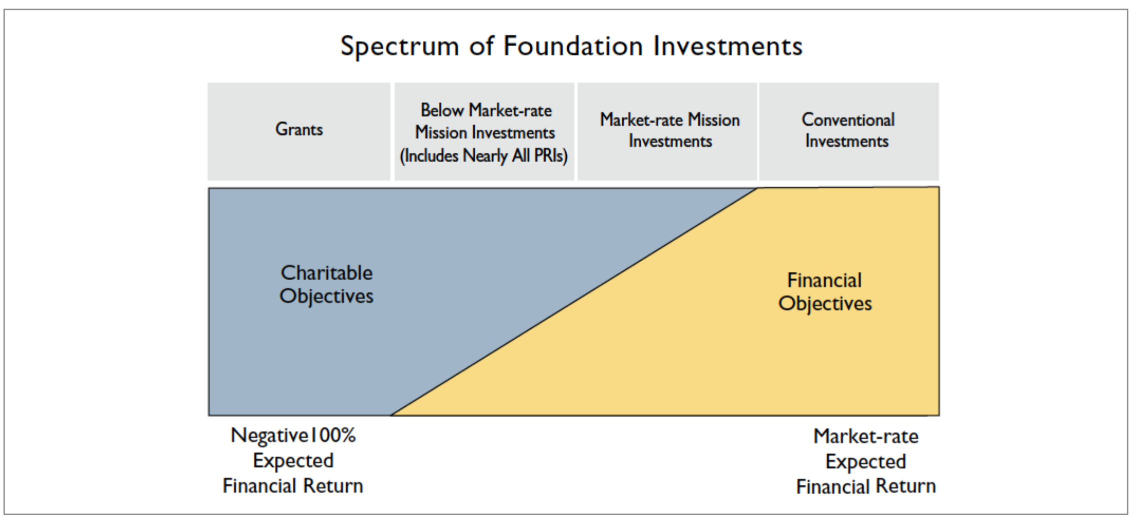
4) Economically Targeted Investment, Mission Investment and Community Investment

Investing is a critical component of community economic development and a valuable tool for strengthening community wellbeing (REC, 2009, p. 4). To this end, many investors employ activities generally known as **'economically targeted investment,' 'mission investment'** and **'community investment'** to align their financial objectives along with non-financial goals. These terms normally refer to an investment approach in which asset owners strategically allocate their resources to further their economic interests while also generating positive social and environmental impacts (SHARE, 2002, p. 19; REC, 2009, p. 8; More for Mission Campaign Resource Center, 2008, p. 6). To accomplish this, investors regularly adopt a triple bottom-line analysis framework to evaluate corporate performance, not only in terms of financial benefits but also positive social and environmental impacts (REC, 2009, p. 8).

'Mission investment' (MI) is a strategy that seeks to align an institution's financial investments with its mission (More for Mission Campaign Resource Center, 2008). Mission-related investments provide institutional asset owners—such as charitable foundations, pension funds and university endowments—additional mechanisms to leverage their financial resources, other than conventional philanthropic devices such as grants (Cooch and Kramer, 2007, p. 7). Among the main objectives institutional investors may pursue through mission investing are: a closer alignment of investment practices with institutional mandates, a wish to recover or 'recycle' endowed funds for future use, and, the ability to generate social and environmental benefits that grants and other philanthropic activities cannot (Ibid.).

Mission investments can be classified into 'market-rate' and 'below market-rate' categories based on their expected level of financial returns (See Figure 6) (Ibid.). Market-rate investments have risk-adjusted financial returns that are equal or superior to comparable investments of comparable risk (Ibid.; SHARE, 2002, p. 19). Conversely, asset allocations in below-market investments usually follow a deliberate decision by capital owners to allow the social and environmental returns to offset the lower financial returns (REC, 2009, p. 8).

Figure 6. Market-rate vs. below market-rate investments by charitable foundations



Source: (Cooch & Kramer, 2007, p. 8)

Note. PRI in the graphic above refers to Program Related Investments, which are financial investments by foundations made with the charitable intent to create positive social/environmental impacts.

'Community Investment' (CI) is a strategy in which investors and lenders, both institutional and private actors, supply capital to communities (or initiatives) that are underserved by conventional financial markets (REC, 2009, p. 8). Through the action of intermediary institutions, community investments aim to fill gaps in traditional financial markets by providing access to credit, equity, capital and basic banking services to otherwise marginalized sectors (Ibid.). The SIO estimates that during 2008, Canadian community investments and investments in social enterprises focused on delivering financial and non-financial returns amounted to $1.397 billion CAD (SIO, 2007, p. 17).

Community investment instruments focus on a wide range of activities that seek to improve the quality of life for individuals, communities and the environment (REC, 2009, p. 8). To this end, CI may provide the necessary capital for initiatives such as affordable housing, education, health services, childcare, livable-wage jobs for low-income individuals, and increasingly, issues related to sustainable development, such as reduction of carbon emissions, development of green technologies and renewable energy (Ibid.). By allocating capital to these kinds of issues, investors may profit from the opportunities created by market inefficiencies while also generating additional benefits to the recipient communities of those investments.

Community investing, unlike mission investing, is not based on the distribution of capital in the form of grants or charitable contributions (REC, 2009, p. 8). Rather, the goal of community investing is to provide competitive financial returns and community benefits (Ibid.). While a charitable institution may engage in community investing at 'below market-rates' of return, this report focuses on investment strategies that aim to maximize the long-term financial value of investments for the benefit of current and future generations of university members. Community investing can be compatible with this investment mandate. In fact, community investments with commensurate risk-adjusted profiles exist in virtually every conventional portfolio asset class, including cash, fixed income, public equity and venture capital, among others (Ibid., p. 11).

Recently, the scope of the CI sector has been expanding to incorporate activities of an emerging funding model known as 'social finance' (SIO, 2007, p. 17). According to this concept, social finance refers to investments in social enterprises that deliver blended social/environmental and economic returns (Ibid.). Social financing takes two main approaches; the first is through grant support for social enterprises and the second is through debt and equity investments in organizations which focus on delivering blended social/environmental impacts as well as financial returns (Ibid.).

CI at the University of Ohio

As a major source of employment, economic spending, intellectual and cultural development, universities already have significant impacts on their local communities. However, many institutions have adopted CI as an additional way to enhance quality of life for their neighbouring communities.

For example, Ohio State University created in 1995 a CI initiative to promote urban redevelopment around their Columbus campus. On top of annual allocations of $650,000 USD for the initiative, the university trustees invested $20 million USD from the school's endowment in a major mix-use redevelopment project. The university also issued bonds to raise additional funds to finance the project's construction.

Source: (REC, 2009, p.9)

There is wide range of methods and prospects to engage in community investment. Depending on their financial and non-financial priorities, investors can choose investments that can vary according to their geographic locations, business sectors, services provided to communities or their environmental focus (REC, 2009, p. 8). As well, there is a wide range of intermediaries such as community development banks, credit unions and community development venture capital funds that leverage investor deposits to provide financial services to marginalized communities (Ibid.).

Implementing a community investing strategy can be as simple as buying a certificate of deposit in an insured community development bank (Ibid., p. 17). Federal insurance schemes normally guarantee certificates of deposit. Thus, from a fiduciary point of view, investments in a community development bank have the same risk profile as deposits in any other conventional bank, but with additional social and reputational benefits to investors (Ibid.)

It is possible that a community investment strategy that helps to address local issues can enhance a university's reputation and its ability to attract more donations. "Social Choice Funds" are attracting more investors to endowment funds by providing donors with the opportunity to participate in directed endowment programs (REC, 2007, p.8). For example, Williams College offers donors the opportunity to direct their investments to alternate funds targeted at social and environmental issues.

Table 7. Considerations for developing a community investment strategy

Issues to consider in community investment (CI) by universities
- Trustees must define the general objectives of the community investing strategy (social, economic and environmental issues).
- University trustees or a designated advisory group could canvass the university community to determine areas of priorities for the CI strategy.
- Determine the types of CI vehicles that are available and address the geographic and prioritary issues defined by the institution.
- Given the relatively new financing models of community investing, the trustees must ensure there is a proper mechanism to evaluate the merit of each investing decision on a case-by-case basis.
- Determine how CI investments will be monitored in relation to financial and non-financial benefits.
- A CI strategy may enhance university fundraising efforts by demonstrating how gifts to the university also have additional beneficial impacts to the community and environment.

Source: Adapted from (SHARE, 2002, p. 21; SHARE, 2008, p. 11; REC, 2009).

United Nations Principles for Responsible Investment

In early 2005, the former United Nations Secretary-General, Kofi Annan, called on a group of the world's largest institutional investors to develop a series of Responsible Investment guidelines (UNEP Finance Initiative and UN Global Compact, 2006, p. 2). From this initiative emerged "The United Nations Principles for Responsible Investment" (UN PRI) (See Table 8). The principles serve as a broad and voluntary investment framework for an increasing number of institutional investors such as pension funds, government reserve funds, foundations, banks, insurance companies and other investment professionals. The principles are based on the recognition that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios (UNEP Finance Initiative and UN Global Compact, 2006, p.2; Freshfields Bruckhaus Deringer LLP, 2005).

Table 8. United Nations Principles for Responsible Investment

"As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognize that applying these Principles may better align investors with the broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:"		
1. We will incorporate ESG issues into investment analysis and decision-making processes.	**2.** We will be active owners and incorporate ESG issues into our ownership policies and practices.	**3.** We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.	**5.** We will work together to enhance our effectiveness in implementing the Principles.	**6.** We will each report on our activities and progress towards implementing the Principles.

Source: (Adapted from UNEP Finance Initiative and UN Global Compact, 2006)

The current 570 signatories to the principles include asset owners (those who hold long-term retirement savings, insurance and other assets), investment managers and organizations that offer products or services to the investment industry (Principles for Responsible Investment, n.d.; UNEP Finance Initiative and the UN Global Compact, n.d.). Within three years of existence, the total amount of assets under management by the signatories to the Principles represented $18 trillion USD as of December 31, 2008 (Tagger, 2009).

As the Principles are a voluntary and aspirational initiative, many investors adopt them as a first step towards implementing RI practices (UNEP Finance Initiative and UN Global Compact, n.d., p. 11). The Principles serve as a common framework for integrating ESG analysis into the existing fiduciary duties of trustees (UNEP Finance Initiative and UN Global Compact, 2006, p. 2), (Tagger, 2009). The fact that the Principles are voluntary also means that signatories are free to determine the best practices to apply across asset classes as an ongoing process (Ibid.). As a common implementation framework, the principles provide opportunities for collaboration with other signatories, thus reducing research and implementation costs (Ibid.). To accomplish this, the easiest first step is to review the policies of other PRI signatories across different asset classes within a portfolio (UNEP Finance Initiative and UN Global Compact, n.d., p. 9).

Surprisingly, only a few universities are signatories to the PRI and it therefore represents an area that could be expanded in the future (Tagger, 2009). Currently, the only North American university-related signatories are: Régime de Retraite de l'Université de Montréal in Canada and the University of Dayton Davis Center for Portfolio Management's Flyer Investments in the US (Ibid.). The Régime de Retraite is a pension fund and Flyer Investments at the University of Dayton is a student-run portfolio that manages over $8 million of the university's endowment in equity and fixed income markets (University of Dayton, 2009). In the UK, the Universities Superannuation

Scheme, the main pension fund for universities, is a major participant of the UN PRI (Tagger, 2009).

Strategic plans for the UN PRI over the next five years aim to engage more colleges and universities as signatories of the Principles (Tagger, 2009). Academic institutions represent a unique and important sector of institutional investors, particularly given the size of university endowments in the U.S. As institutions responsible for educating future financial professionals, colleges and universities also play a fundamental role in the development of financial markets. While there is currently a palpable involvement gap, the present report provides a sample of emerging RI best practices among academic institutions.

RI Approaches Among Academic Institutions.

Following models developed by Harvard and Yale, many schools in North America have established subsidiary units responsible for overseeing investments of endowments and pension funds (UBC, 2007, p. 16; Church and McFarland, 2009). This investment model is known as a 'manager of managers' (MOM) approach. Under this model, the university's subsidiary is responsible for conducting research on investment management houses in order to identify firms, or individuals within those firms, whom they consider to be the best available specialists for different asset categories or different investment styles (Barnett Waddingham LLP, 2002). Typically, a university will use a variety of investment houses focusing on various geographic areas and diverse investment mandates. As agents of the university's trustees, subsidiary investment units often have the responsibility for exercising voting rights associated with the institution's investments. Voting responsibility, however, is often delegated to the investment managers who retain control of the voting rights of shares held within pooled funds (UBC, 2007, p. 20).

Responsible Investment initiatives among institutions of higher learning are largely initiated through student mobilization. Typically, student groups organize to do research on the university's investment practices, craft arguments in support of Responsible Investment practices and then engage with the university administration to advocate for the implementation of RI policies (Goel, 2009; Tagger, 2009; Gray, 2009). More recently, these arguments have focused on the fiduciary duties of university trustees to consider the potential non-financial risks affecting the long-term performance of the institution's investments.

However, one of the greatest challenges to the widespread implementation of RI among universities is that the continuity of student advocacy efforts is inconsistent due to the transient nature of their association with their universities (Chapman, 2009; Goel, 2009; Weber, 2009). Given the complexity of investing, developing knowledgeable notions about RI practice takes considerable time. Students often graduate before they can significantly engage the university's trustees and their agents in discussions aimed to influence the methods by which millions of dollars of institutional assets are invested. Questions about proper endowment management practices can become highly controversial issues. It can take years to produce a university-wide Responsible Investment policy.

Committee Structure for Implementing Responsible Investment

Among universities, RI frameworks are often implemented through what is known as a double committee structure (Responsible Investment Working Group, 2006, p. 17; REC, 2007, p. 21). The first committee is commonly comprised of university trustees who have the ultimate responsibility for financial decision-making (Ibid.) The second committee is typically an advisory body to the trustees, with multiple representation from the university community (students, faculty, administrative staff, alumni, etc.) (Responsible Investment Working Group, 2006, p. 17).

In order to establish an effective advisory group, it is important that a university articulates a clear vision and implements a judicious process to develop a Responsible Investment policy appropriate to the particular circumstances of the institution (Weber, 2009). Generally, the first step involves engagement and education of various stakeholders within the university (Chapman, 2009). Students advocating for the implementation of RI need to educate themselves about complex investment issues, while university trustees and their agents responsible for financial decision-making must develop a clear understanding about the evolving nature of their fiduciary duties, as well as a broad appreciation of the different methods employed and the potential effects of RI.

An effective advisory committee will also require adequate financial resources and expertise to fulfil its role (REC, 2007; Krosinsky, 2009). It is helpful to have a paid staff person to coordinate the activities of the committee (Weber, 2009). The Responsible Endowments Coalition recognizes that participating in advisory committees is a valuable educational opportunity for students and recommends that they are made responsible for conducting the bulk of the committee's work (Ibid.). However, it is important that their work is carefully supervised by designated university staff or senior committee members (Ibid.) Alumni can also provide relevant expertise to support the committee's work (i.e., RI sector, law, environmental impact analysis, etc.)

To perform this advisory role, committee members carry out research to identify and address ESG risks and opportunities. To accomplish this, they require adequate information from the universities' investment managers (Responsible Investment Working Group, 2006, p. 17). Some investment managers, however, may be concerned that increased transparency and public scrutiny over a university's investment strategy may contravene the duty to safeguard proprietary information and threaten the institution's portfolio profitably over the longterm (REC, 2007, p. 22). Others argue that enhanced transparency does not threaten financial performance and is, in fact, necessary to ensure that those responsible for financial decision-making remain accountable to the various stakeholders of a university (Ibid.; Weber, 2009).

Challenges and Solutions

Implementing RI strategies can involve considerable time and resources. Universities normally face a number of challenges to adopting these frameworks. Investment issues are complex, and the demands on advisory committees and trustees can far exceed the time and expertise that individual committee members can devote to the task. Often, RI adds new responsibilities for already busy university administrators (Weber, 2009). To deal with these challenges, some universities leverage existing institutional resources, draw on the expertise of their intellectual communities, and work in coalition with like-minded institutions (Ibid.).

Promote Education on Best Practices

Engaging in RI demands that trustees, university investment managers and advisory committee members educate themselves on current best practices. This can be a daunting task and requires a thorough understanding of emerging investment approaches by other universities and institutional investors. Then with this information, it is necessary to engage in a conscientious analysis of appropriate strategies given the particular circumstances of the university (Weber, 2009). To accomplish this, advisory committees often need to rely on external resources and establish suitable partnerships with organizations such as the Responsible Endowments Coalition and the United Nations Principles for Responsible Investment (Ibid.; Krosinsky, 2009; Responsible Investment Working Group, 2006, p. 21; Chapman, 2009).

Build Dialogue With Stakeholders

In the past, questions over social and environmental impacts of university investments have generated a confrontational climate between student activists and school administrations (Goel, 2009). University staff responsible for the management of investments periodically interact with students and other stakeholders advocating for the exclusion of investments based on ethical and environmental concerns (Chapman, 2009). In order to develop a constructive dialog to advocate for the implementation of RI and enhance a university's investment practices, it is useful to engage in a professional and rigorous analysis of controversial investment issues and to assess ways in which ESG issues may affect the long-term value of investments (Goel, 2009). In other words, it is helpful to focus on the fiduciary case for considering the potential impact of non-financial risks in the performance of the university's investment returns.

Use Public Consultation and Deliberation

Given the diversity of beliefs and priorities intrinsic to academic environments, reaching an agreement on the definition of ethical and unethical practices can become a contentious issue (Gray, 2009). To address this challenge, a university may attempt to frame these discussions based on current institutional policies as well as the examination of the international agreements to which a university's host country belongs (i.e., the UN Global Compact, the International Labour Organization, the Kyoto Protocol on Climate Change, etc.) (Chapman, 2009). Additionally, a university might attempt to articulate its values through deliberation with university trustees and advisory committees on Responsible Investment, and through public consultation (Ibid.; Gray, 2009).

> "If we listen to scientific experts looking at issues like the future of fisheries, climate change, and the future of our forests, then we begin to see that even within our university community we have some very serious questions about the interactions between our capital allocation decisions and our real understanding of the trajectory of our economy. That is the place where the University as an investor can actually shine—by ensuring that its economic modeling takes into account the best knowledge of its own academic and scientific community."
>
> Peter Chapman, Executive Director, Shareholder Association for Research and Education

Apply RI as a Tool to Enhance Financial Performance

Some of the greatest challenges to the implementation of RI frameworks involve uncertainties about financial performance. There is a prevalent belief that approaches to Responsible Investment must, by definition, underperform conventional investments (Krosinsky et al., 2008, p. 19). The reality is that RI research has produced mixed results in terms of portfolio performance. Some studies suggest that an investment policy based on stock exclusion alone can have a detrimental impact on investment returns (Acharya et al., 2007; Hong and Kacperczyk, 2009). Others suggest that asset allocation decisions based on consideration of the social and environmental risks and opportunities presented by investments can deliver superior performance over the long term (Krosinsky et al., 2008). While this debate is likely to continue, it is increasingly evident that due to the materiality of non-financial factors on investment performance and the increasing complexity of financial decision-making, RI is a tool to enhance financial analysis.

Develop Employee Commitment and Engagement

Implementing RI can also require considerable resources. University endowments vary in size, and in order to achieve economies of scale, many universities rely on external managers and investments in pooled funds. As universities reduce their investments in direct holdings, their ability to engage in proxy voting also declines (Weber, 2009). At the same time, this trend raises issues about the transparency of the institutions' investments. For example, the University of Toronto incurred a loss of $5 million in indirect 'fund of funds' investments associated with Bernard Madoff's infamous Ponzi scheme (Church and McFarland, 2009). For these reasons, an RI strategy calls for additional oversight and the allocation of funding and staff to identify risks in complex financial markets (Weber, 2009). Some institutions have found that the commitment and expertise of university members can help to reduce the costs of effective RI implementation and oversight (Gray, 2009).

Responsible Investing as a Tool for Education

Some universities have begun to recognize the potential of Responsible Investment practices to further the educational mandate of the institution. This is perhaps one of the most promising areas for the improvement of conventional financial and economic practice. The recent financial crisis, the growing disparity between rich and poor, and the rising evidence of ecological degradation highlight the need for a conscientious and public debate regarding current approaches to the generation of wealth. RI as an interdisciplinary framework draws on investment practice, its interaction with law, and the growing understanding about the interconnection between environmental and social issues (Tagger, 2009).

Promote Student Participation in RI Advisory Groups

> 'Students are not just learning about shareholder responsibility; they are learning about different ways that we confront problems in society. It is not just about changing a particular social issue but how do we, as citizens, interact with the world.
>
> One of the ways in which we do this is through corporations, whether it is as shareholders, consumers, employees, etc. Examining our relationships to corporations as institutions is valuable to people receiving a liberal arts education.'
>
> Cheyenna Weber, Organizing Director
> Responsible Endowments Coalition

For a small group of students, the experience of participating in RI advisory groups provides a unique opportunity to participate in complex decisions about capital asset allocations. This experience also provides an opportunity to deliberate on the ecological and social impact of investments. However, it is important that the university and its RI advisory bodies remain accountable and open to the larger community in order to create additional learning opportunities (Weber, 2009). To accomplish this, some universities promote student engagement through paid and unpaid internships, town hall meetings, surveys, courses, and the Internet (Ibid.).

Incorporate RI Into the Curriculum

Columbia University has been particularly proactive in creating learning opportunities associated with their RI practice. Faculty members participating in the advisory committee incorporate analysis and discussion of RI issues into some of their courses (Ibid.; De Schepper, 2009). Students get academic credit for their research and greater insight into the impacts of financial decision-making while the university can reduce costs associated with the RI strategy. Additionally, the university started offering a course on emerging sustainable investment practices last fall (Krosinsky, 2009).

Develop Student-Managed Investment Funds

Some universities have also created student-managed investment funds from their endowments (Ibid.;Tagger, 2009). The Davis Centre for Portfolio management at Dayton University in Ohio, for example, provides senior undergraduate students with practical opportunities to manage a fund that has grown to a market value of approximately $8 million USD (University of Dayton, 2009). Currently, the fund is one of the only two North American signatories to the UN PRI associated with an academic institution (Tagger, 2009). A team of students focusing on RI issues provides recommendations that seek to inform the Davis Center Staff and the university on Corporate Social Responsibility (CSR) issues (Davis Center for Portfolio Management, 2009). Among the roles of the team are: to ensure that the student-run portfolio remains in compliance with UN PRI, operate a mock socially Responsible Investment fund and oversee management facilitation of a micro-lending program (Ibid.).

Conclusion

Through educational and Responsible Investment initiatives like those proposed in this report, universities can engage students in discussions about the need to pursue alternative models for socioeconomic development; models that are more just, that focus on public wellbeing and that are bound by the reality of the earth's biocapacity. Transitioning to a low-carbon economy will require a substantial shift in social, political and corporate values. Colleges and universities play an essential role in the formation and inculcation of these values. To be truly feasible and sustainable, this transition also depends on the power of financial markets to mobilize the capital required to develop the technology and solutions that can contribute to the stability of the earth's climate and the resilience of critical life-support systems that sustain the global population. Leveraging the large capital base of educational endowments through the efficient management of Responsible Investment practices can play a growing and significant role in the development of a sustainable economy.

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