



MFA BC

Municipal Finance Authority of BC

Appendix B

FINANCIAL FORUM

2017

Socially Responsible Investing Panel

March 29, 2017



**University
of Victoria**

PHILLIPS, HAGER & NORTH
Investment Management®

SOCIALLY RESPONSIBLE INVESTING PANEL

Introduction

SFU Perspective

UVic Perspective

PH&N Perspective

Key Considerations

Outcomes

Q&A Period

PANELIST BIOGRAPHIES

Alison Blair is the Associate Vice-President Finance at Simon Fraser University and acts as a trustee of the Academic Pension Plan and Treasurer of the SFU Foundation. Alison holds an MBA from Simon Fraser University and is a Chartered Professional Accountant. Previously, Alison has worked in both the investment industry and the pension finance area in Toronto.

Andrew Coward is the Treasurer of the University of Victoria and the University of Victoria Foundation. He is also a member of the investment committee on the UVic Staff Pension Plan. Andrew holds a Bachelor of Commerce with a Finance and Risk Management concentration from the University of Calgary. He has completed the Canadian Risk Management Designation through the University of Toronto and earned the CFA designation in 2011.

Kevin De Sousa is an institutional portfolio manager at Phillips, Hager & North, responsible for fixed income specialty portfolios. Kevin's clients have a variety of fixed income mandates including universe bonds, long bonds, corporate credit, and cash management. Kevin is a CFA charterholder and has a Bachelor's in Business Administration from Simon Fraser University. He is a member of the PH&N Canadian Institutional Management Committee and joined the firm in 1996.

SOCIALLY RESPONSIBLE INVESTING

- Socially responsible investing (“SRI”) is any investment strategy which seeks to consider both financial return and social good to bring about a social change.
- Various forms of SRI have been around for hundreds of years.
- ESG (Environmental, Social and Corporate Governance) vs. SRI (Socially Responsible Investment) vs. Fossil Fuel Free.
- Technical difficulties in managing SRI funds:
 - Lack of homogeneous “moral compass”
 - Portfolio impact and drag on investment returns (concentration, smaller investable universe, additional costs, etc.)
 - Fiduciary role
 - Definition and scope

RESPONSIBLE INVESTMENT LANDSCAPE

Broader Focus

Narrower Focus

ESG	SRI	Fossil Fuel Free
<ul style="list-style-type: none"> • Environmental, social, and governance (ESG) factors are integrated into analysis of all investment holdings; encompasses a range of strategies (ESG integration, positive screening, best-of-sector screening) • Driven by a business-case rationale 	<ul style="list-style-type: none"> • Negative and positive screenings of ESG risks are used to align a portfolio to specific values; more likely than mainstream ESG to include negative screens on entire sectors such as tobacco, gambling, alcohol, weapons, fossil fuels, etc. • Driven by a moral rationale 	<ul style="list-style-type: none"> • An impact-first strategy where environmental / social need may require some financial trade-off. • Negative screen excludes entire fossil fuels sector. • Driven by narrow moral rationale



United Nations Principles for Responsible Investment (UNPRI)
1) Incorporate ESG issues into investment analysis and decision-making processes
2) Be active owners and incorporate ESG issues ownership policies and practices
3) Seek appropriate disclosure on ESG issues by the entities in which invested
4) Promote acceptance and implementation of the Principles within the investment industry
5) Work together to enhance effectiveness in implementing the Principles
6) Report on activities and progress towards implementing the Principles

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SFU PERSPECTIVE PRESSURE TO DIVEST



SFU PERSPECTIVE RESPONSIBLE INVESTMENT FOOTPRINTS

1984

- Vancouver Foundation



2008

- Macquarie Clean Technology Fund



2014

- Responsible Investment Policy
- UNPRI Signatory
- Responsible Investment Committee



2004

- Second City Real Estate Partners



2012

- Vancity Resilient Capital Program



SFU PERSPECTIVE RESPONSIBLE INVESTMENT FOOTPRINTS – 2016

- Sponsored PRI Signatory Workshop – Fiduciary Duty in the 21st Century
- Sponsored Western North American PRI Network
- Invested \$8 million into SRI Fund – Henderson Global Care Growth Fund
- Four investment managers are now fossil-fuel free
- Filed SFU's first UNPRI Annual Assessment Report
- Community consultation held and revisions made to SFU's Responsible Investment Policy
- Commitment made to measure and reduce the carbon footprint of SFU's investment portfolio by 30% by 2030



SFU PERSPECTIVE RESPONSIBLE INVESTMENT POLICY (B10.16)

Specifies the tools SFU uses to pursue responsible investing:

- SFU evaluates fund managers on how well they incorporate ESG into their research, analysis, and decision making;
- SFU is a signatory to the United Nations Principles for Responsible Investment (UN PRI); and
- SFU has established a Responsible Investment Committee (RIC) to review ESG issues.

The policy also provides guidelines for considering the appropriate response to any divestment request.



SIMON FRASER UNIVERSITY
POLICIES AND PROCEDURES

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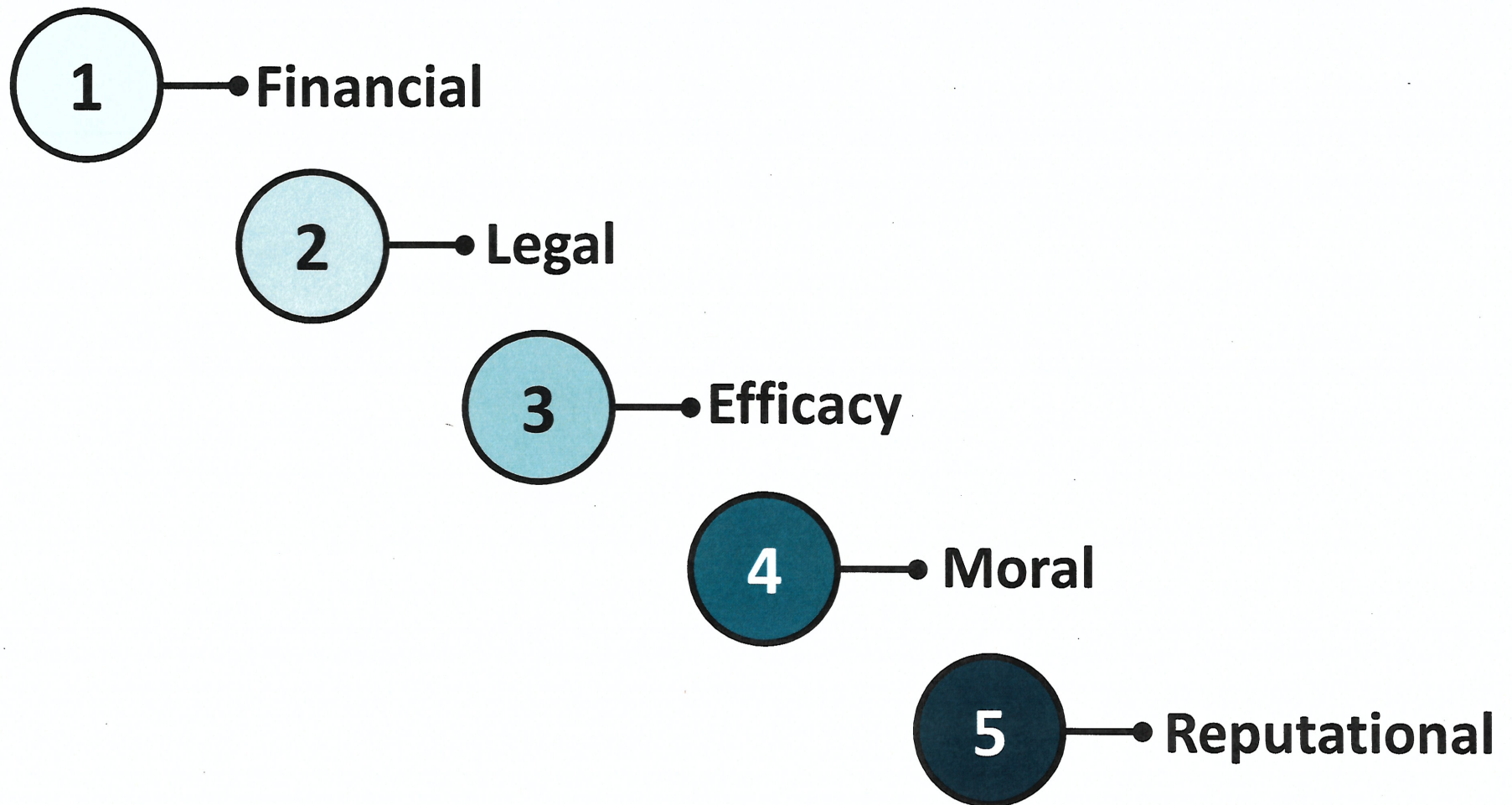
UVIC PERSPECTIVE PRESSURE TO DIVEST



Divest UVic crashes Board of Governors meeting, calls on students to join for future escalations.

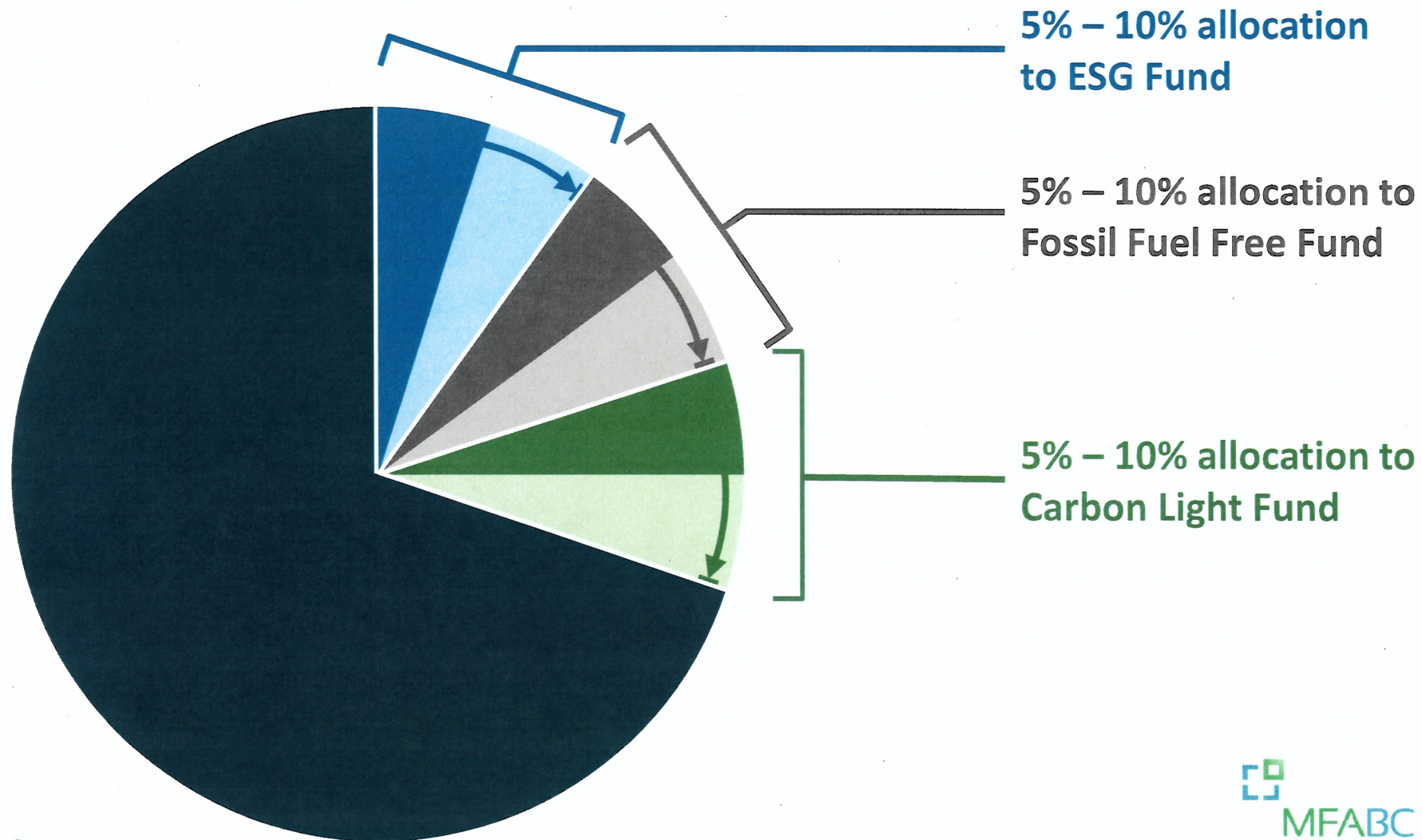
- **STARS System:**
 - Over three hundred universities have participated in the STARS system and approximately 20% have received a Gold level rating
 - UVic was the fifth post-secondary institution in Canada to receive a Gold rating
- **Pacific Institute for Climate Solutions (PICS)**
 - The PICS endowment was funded by the BC government in 2008
 - In 2014 UVic and PICS Co-Sponsored an event: *“A dialogue: climate change, divestment and society”*
 - PICS also funded a divestment white paper

UVIC PERSPECTIVE CONSIDERATIONS



- The University of Victoria Foundation approves a responsible investing belief incorporating ESG
- FDN requested that managers provide proxy voting reports
- FDN requested annual disclosure by managers regarding ESG factors

UVIC PERSPECTIVE
2013 – 2014
INVESTMENT CONSIDERATIONS



- FDN requested that our managers comment on the financial impact of refraining from investing in the top 200 companies listed with the highest reserves
- FDN explored direct involvement in:
 - UNPRI (signatory in 2015)
 - Carbon Disclosure Project
 - Canadian Coalition for Good Governance

- Signatory to UNPRI
- UVic contributed \$25,000 to create a pilot fossil fuel free fund
- Seeding the pilot will allow:
 - those with commitments of less than the minimum \$25K required the ability to still support the new pilot fossil fuel free fund, and;
 - Support the green fund on campus.

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PH&N PERSPECTIVE ENVIRONMENTAL, SOCIAL & GOVERNANCE

- Created Corporate Governance & Responsible Investment Group within RBC GAM
 - Developed an “Approach to Responsible Investment”
- RBC GAM is a signatory to the United Nations Principles for Responsible Investment (UN PRI).
- Founding Member of the Canadian Coalition of Good Governance (CCGG)
 - Our CIO, Dan Chornous is Chair
- ESG is integrated across investment teams
 - Using MSCI, Sustainalytics and Maplecroft

PH&N PERSPECTIVE MFA POOLED FUND CHOICES

**Money Market
Fund**

**Intermediate
Fund**

**Bond
Fund**

Interest Rate Risk & Returns Increase



Benchmark:

- 30-day T-Bills

- 1-Year T-Bills

- FTC Short Term Bond Index

**Key
Guidelines:**

- Focus on high quality
- Max. 366 day maturity

- Focus on high quality
- Max 2 year maturity

- Focus on high quality
- Max 7.25 years maturity

**Investment
Time
Horizon:**

- 0–9 months

- 9–24 months

24 months–5 years

\$2.4 billion in assets as of December 31, 2016

PH&N PERSPECTIVE
MFA POOLED FUNDS
FOSSIL FUEL EXPOSURE AS AT DECEMBER 31, 2016

Sector	Money Market Fund	Intermediate Fund	Bond Fund
Oil & Gas Producer	3.2%	-	0.5%
Pipelines / Distribution	8.9%	0.9%	6.9%
Total as % of Market Value	12.1%	0.9%	7.4%
Total as % of Corporates	12.1%	1.3%	18.7%
Power Generation as % of MV	2.9%	-	0.3%

PH&N PERSPECTIVE FOSSIL FUEL DIVESTMENT FOR MFA POOLED FUNDS CONTEXT

- MFA provides investment funds for municipalities across B.C.
 - Broad client base
- Able to change and decide investment guidelines
 - Change affect all clients
- Energy and pipelines, are a meaningful portion of the Canadian economy and capital markets
 - Diversified Canadian fixed income portfolios will have some exposure unless explicitly avoiding these industries
- Divestment necessarily decreases diversification
 - Will increase share of already large financial sector

PH&N PERSPECTIVE FOSSIL FUEL DIVESTMENT FOR MFA POOLED FUNDS *OPTIONS AVAILABLE*

- Status quo
- Change guidelines for existing pooled funds
 - Affects all clients
- Create new fossil fuel free fund(s)
 - Creates the most flexibility – clients can choose appropriate vehicle
 - Considerations:
 - Is there adequate expected demand?
 - Additional costs to create new pooled fund(s)
 - Loss of economies of scale

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KEY CONSIDERATIONS: FIDUCIARY RESPONSIBILITY

- Fiduciary responsibility is a contested term, with different definitions and different legal interpretations.
- Fiduciary obligations exist to ensure that those who manage other people's money act responsibly in the interest of their clients, rather than their own interests.
- Fiduciaries should:
 - Not put their personal interests before their duty;
 - Avoid conflicts to the extent possible;
 - Should ensure that their fiduciary duty does not conflict with other legal duties; and
 - Should not profit unreasonably from their fiduciary position.
- Fiduciary duties are generally seen as requiring a higher standard of performance than those that are generally imposed in contracts.
- The most important fiduciary duties are:
 - Duty of loyalty; and
 - Duty of prudence.

KEY CONSIDERATIONS: POTENTIAL ESG FACTOR SCREENS



Environment

- Greenhouse gas emissions
- Climate change impacts
- Renewable energy
- Energy efficiency
- Resource depletion
- Chemical pollution
- Waste management



Social

- Fair trade products
- Workplace health and safety
- Labour standards
- Child labour
- Employee relations
- Diversity
- Freedom of association



Governance

- Executive compensation
- Bribery and corruption
- Shareholder rights
- Business ethics
- Board structure
- Risk management

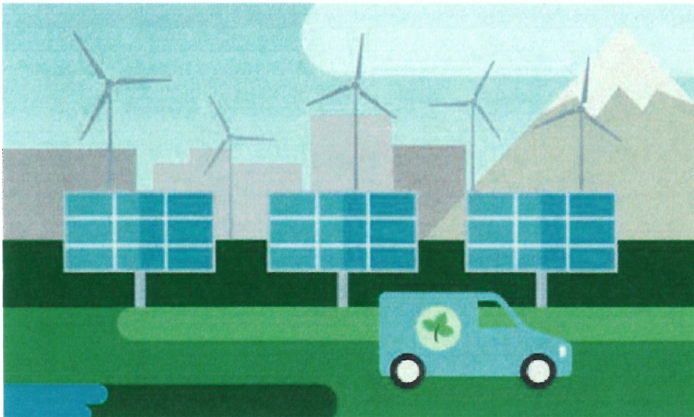
Source: PRI Association

KEY CONSIDERATIONS:
FOSSIL FUEL DIVESTMENT
MANAGING THE SLIPPERY SLOPE: DEFINING FOSSIL FUELS

- Extraction of fossil fuels accounts for ~25% of green house gasses in Canada
 - Consumption of fossil fuels accounts for the remainder
- Divest from fossil fuel consumption intensive industries?
 - Power generation, autos, railways, airlines, transportation
- Divest from businesses that sell primarily to fossil fuel industries?
- Divest from financial institutions that provide funding to fossil fuel industries?

KEY CONSIDERATIONS: FOSSIL FUEL FREE INVESTING: COMPLEXITY AND COSTS

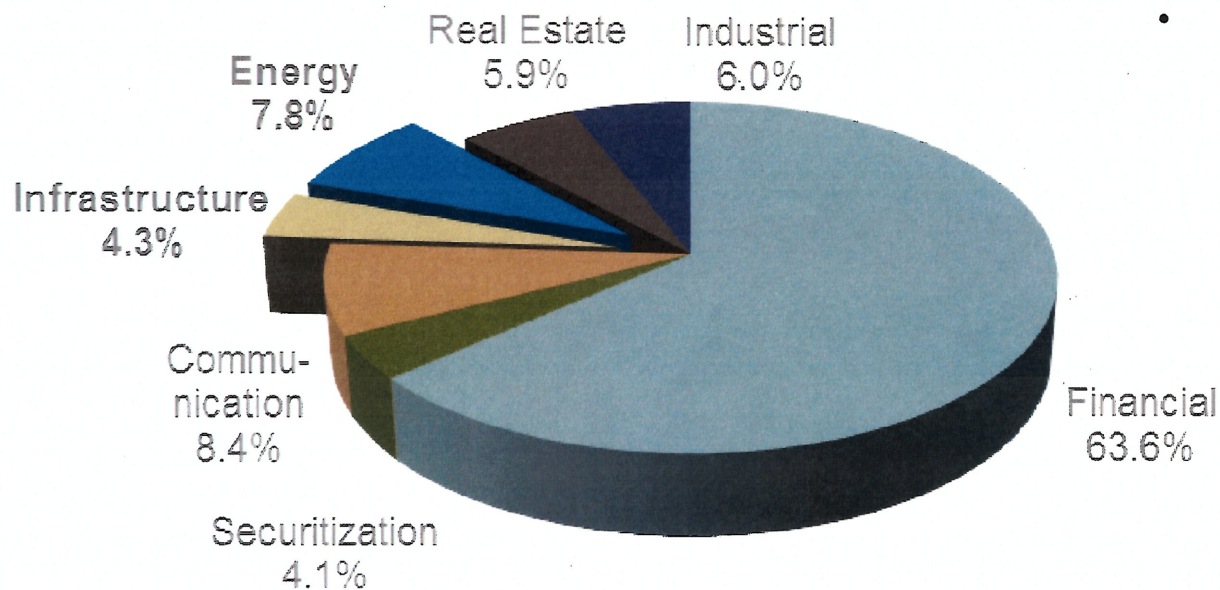
- Complexity
 - FFF: Lower, the strict definition is to exclude companies that own oil, gas and coal reserves
 - SRI: Higher, may apply various negative and positive screens
- Costs
 - FFF and SRI: May be higher due to the smaller size of the investment fund and the availability of suitable investments.



KEY CONSIDERATIONS: CANADIAN BOND MARKET LIMITATIONS

- **Highly concentrated**
 - Financials & Securitization fully 68% of short term corporate bond market
 - Compared to 18% of Global Equity market
- **Negative implications for diversification**
 - Of remaining 32%, fully 12 are Energy & Infrastructure (pipelines, distribution)
 - Removal of these sectors reduces ability to diversify from Financials

FTSE TMX Canada Short Term Corporate Bond Index



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OUTCOMES: PERSPECTIVES ON DIVESTMENT AN OPTION WHEN ENGAGEMENT DEEMED INSUFFICIENT

Motivations or Goals

- Moral/Social
- Environmental
- Financial

Oxford Study on Impact of Divestment

- Limited direct impact on equity or debt
 - Divested holdings bought by neutral investors
- Most effective at stigmatizing companies
 - May lead to legislative or regulatory change

Fiduciary Duty Must be Considered



OUTCOMES: DOES FOSSIL FUEL FREE OR SRI INVESTING WORK?

- Fossil Fuel Free Investing
 - Divestment has not been shown to influence behaviour
 - Shareholder engagement may be more effective
 - Fund Managers should consider ESG factors e.g. stranded assets, environmental liability, long-term view
 - Carbon footprint awareness and reduction may be an alternative
- SRI
 - Expected returns may be lower and fees higher
 - Potential long-term risk reduction by adding screens
 - Decreases carbon footprint of portfolio and addresses climate change

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