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The following item was approved at the Investment Committee of March 13, 2024. It is presented to the Board of Governors for its information.

I. FOR THE INFORMATION OF THE BOARD OF GOVERNORS

1. 2023 Investment Committee Report on Socially Responsible Investing (SRI) [IC23-37]

The Investment Committee, on the recommendation of the Interim Vice-President (Administration and Finance), approved the submission of the 2023 Investment Committee Report on Socially Responsible Investing to the Board of Governors.

The Report is attached as Appendix A.

END

April 2024

Investment Committee Report on Socially Responsible Investing

2023



McGill

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Message

From the Chair of the Investment Committee

The McGill Investment Pool (“MIP”) is invested to achieve appropriate returns to support the University in fulfilling its mission and purpose, while at the same time committing to Socially Responsible Investing (“SRI”) in how McGill invests, where it invests, and the expectations set for those McGill invests with. In December 2019 McGill established eight SRI Commitments and we report here on the success of achieving those Commitments. Importantly, the decarbonization commitment target was attained two full years ahead of schedule.

McGill has a goal to invest 5% of the MIP in funds that actively generate positive environmental impact. We report on the achievement of that goal and provide examples of Impact Investments made. The McGill Statement of Investment Policy for the MIP includes Environmental, Social, & Governance (“ESG”) goals and objectives. Investment managers that McGill engages with are to adopt ESG considerations in their investment decision analysis and in their monitoring of investments made. ESG is a formal component of the performance evaluation of the MIP’s investment managers.

We can report that 99% of the MIP’s assets are with investment managers that have an ESG policy or are signatories to the United Nations Principles for Responsible Investment. Our active engagement on ESG matters is also in collaboration with others to achieve a greater impact. We outline those initiatives in this report.

In this report you will see that the SRI objectives for the MIP that were set in 2019 were reached or exceeded ahead of their 2025 review date. As a result, in December 2023, the McGill Board of Governors adopted a more ambitious set of SRI commitments for the investment of the MIP. This shows McGill’s commitment to Socially Responsible Investing and sustainability in its investment policies and practices..



Donald Lewtas

Chair of the Investment Committee

McGill Investment Pool

Investment Framework

The McGill Investment Pool (“MIP”) is the product of the generosity and philanthropic support of donors. It advances the University in fulfilling its mission and purpose by providing funding for pioneering research, student financial assistance, and campus infrastructure.

MIP Market Value

\$ 2.0B

As of December 31, 2023

Objective

Achieve optimal returns while effectively managing risk to preserve capital within a sustainable framework that prioritizes low carbon emissions.

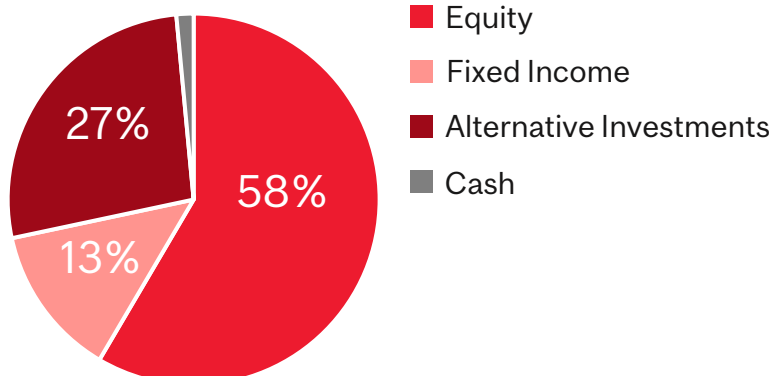
Investment Horizon

Long-term indefinite time horizon

Characteristics

- Diversification of investments across geographies; primarily in Canada, US, Europe and Asia
- Diversification of investment portfolio across asset classes managed by multiple experienced investment professionals
- Significant allocation of assets into pooled funds alongside fellow investors
- Rigorous selection and ongoing monitoring of investment managers, assessing their proficiency in integrating environmental, social, and governance (ESG) factors, as well as their commitment to minimizing carbon emissions.

Asset Allocation



Progress Tracker

8 SRI Commitments

Implementation status as of December 31, 2023

Decarbonization

Reduce emissions to **33%** below benchmark (listed equities) by 2025

37.1%

below benchmark



Impact Investments

Invest **5%** to generate social and environmental impacts by 2025

8.2%

with unfunded commitments



ESG Integration

Encourage managers to adhere to ESG policies and sign on to UNPRI

99%

ESG Integration of MIP assets



Engagement

Exercise active stewardship through voting and corporate engagement

71

Engagements with companies



Negative Screening

Invest in the fossil fuel-free fund & promote to the donor community

\$11.7M

in FFF & SRI Funds



Institutional Leadership

Maintain a leadership role to evaluate and promote SRI policies and best practices



Report

Publish an annual SRI report that is presented to the Board of Governors



Review

SRI practices were reviewed in December 2023 and next review is planned for 2029



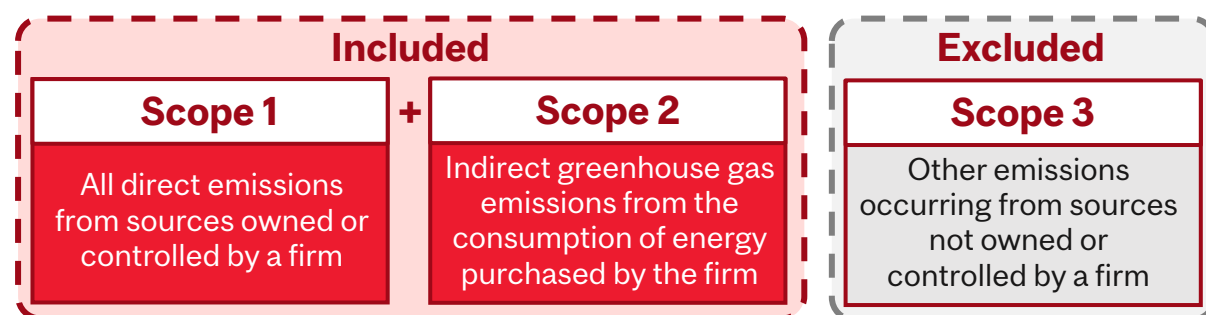
Decarbonization

In 2019, McGill committed to reducing the carbon emissions of the MIP public equity portfolio to achieve and sustain, by 2025, a 33% carbon emissions reduction relative to the MIP public equities benchmark.

Methodology

The greenhouse gas emissions of firms are expressed using tons of carbon dioxide equivalent (“CO₂e”). The carbon footprint of the MIP is thereby measured in tons of carbon dioxide equivalent per USD 1 million dollars invested (defined as tCO₂e/\$M). This normalized metric allows comparison of portfolios of different sizes, markets, and time periods against a benchmark consisting of comparable firms.

CO₂e emissions are categorized into three separate scopes by the GHG Protocol’s Corporate Accounting and Reporting Standards. As depicted in the table below, firms report Scope 3 emissions at lower rates than Scope 1 & 2. Furthermore, multiple entities from the same value chain can result in the double-counting of emissions. For example, an upstream manufacturer and a downstream retailer would both be attributed scope 3 emissions for the third-party transportation of goods from the manufacturing plant to the retail store. As such, McGill tracks Scope 1 & 2 for investments and benchmarks.



Data Provider

Carbon footprint data is sourced from MSCI. MSCI is a global provider of market indices and ESG solutions with expertise in ESG analysis and carbon footprint measurement. Carbon emissions are recorded using the “Market Capitalization” allocation base and data is collected from MSCI as of December 31st, 2023, though reported emissions may have been provided by the firm at an earlier date.

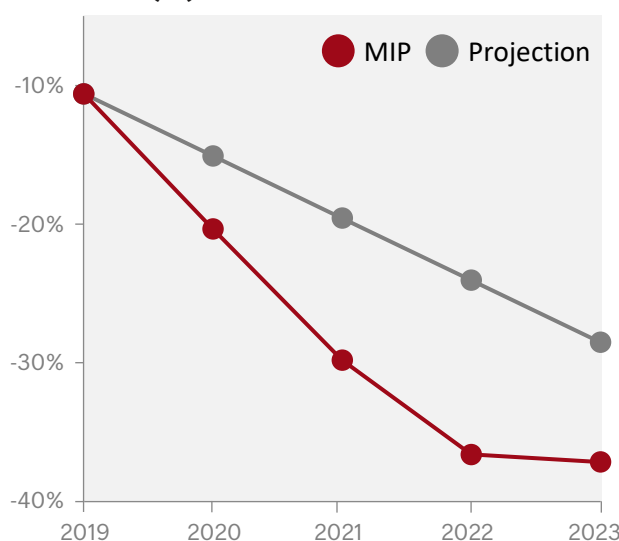
Decarbonization

-37.1%
Relative Reduction

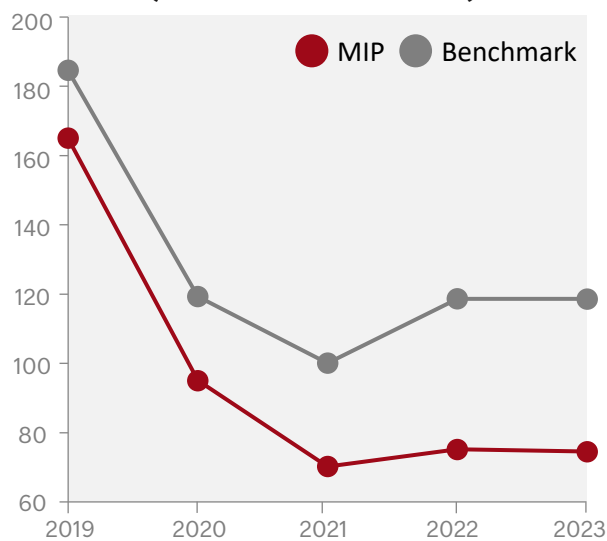
-54.8%
Absolute Reduction

In 2023, the MIP's listed equity **carbon footprint was 37% below** the benchmark's carbon footprint. Since 2019, this has translated into a **55% absolute carbon emissions reduction**. Geopolitical events like the Ukraine War have driven increased oil prices, which has raised the average carbon footprint of benchmarks since 2021. Despite the rise, the MIP's listed equity carbon footprint remained relatively stable, demonstrating the resiliency of McGill's decarbonization efforts.

**Listed Equity Carbon Footprint
(%) relative to benchmark**



**Listed Equity Carbon Footprint
(tCO₂e/\$M invested)**



Fossil Fuel Exposure

The MIP had 1.2% (\$23.7M) direct exposure and 0.6% (\$11.2M) indirect exposure to the Carbon Underground 200™ (“CU200™”)¹, the largest public coal, oil, and gas reserves owners as of December 31, 2023.

The Office of Investments regrets to inform readers that the CU200™ data presented in the 2022 SRI Report was incorrect due to a calculation error. Instead of 0.9% of the MIP (\$16M), the actual CU200™ holdings encompassed 1.7% (\$31M) of the MIP as of December 31st, 2022. It is crucial to emphasize that the identified miscalculation, while regrettable, does not alter McGill's commitment to divest from direct exposure in CU200™ holdings as approved by the Board of Governors in December 2023.

¹ Carbon Underground 200 list as of December 31, 2023, provided by FFI Solutions©

Impact Investments

In 2019, McGill committed to investing 5% of the MIP in funds that actively generate positive environmental impact.

Impact investments aim to go beyond ESG integration by directly investing in sustainable business models, services, and infrastructure that seek to positively impact society. The types of impact investments considered by the Investment

Committee includes green bonds, renewable energy infrastructure, sustainably certified real estate, and firms that derive most of their revenue from sustainable solutions. Below are examples of investments with positive environmental impact:

5.5% or \$111M
8.2% or \$164M
with unfunded commitments²

Private Equity Impact Fund Committed Amount: \$30M USD

The Private Equity Impact Capital Fund invests in the global private equity markets to generate positive contributions toward environmental themes, which include EV battery manufacturers, sustainable agriculture products, and data providers.



EV Battery Manufacturer

The company develops lithium-ion battery technology, supporting the transition away from internal combustion engine vehicles

Green Bond Portfolio Current Value: \$14.7M CAD

Green bonds are financial instruments that supply funding for sustainability-related projects such as public transportation infrastructure, carbon emissions reduction, or energy efficiency programs that seek to generate positive impacts.



Société de transport de Montréal ("STM")

Bond issuance supported the acquisition of 71 AZUR metro trains with expanded capacities and new ventilation systems

Renewable Infrastructure Fund Committed Amount: \$25M USD

The Global Renewables Fund generates tangible and measurable positive impacts to support the energy transition through providing affordable clean energy infrastructure and contributing to the development of sustainable communities.



Offshore Wind Developer

Since 2015, the wind turbine operator has developed 7 gigawatts worth of projects across Taiwan and Japan

² Money that has been legally engaged by McGill towards private funds but not deployed yet. In general, commitments in private funds are deployed over a one-to-five-year period.

ESG Integration

In 2020, the Statement of Investment Policy was amended to reflect Environmental, Social, & Governance (“ESG”) goals and objectives. Investment managers are expected to research, understand, and evaluate the material ESG risks that affect McGill’s holdings. This encompasses the investment and decision-making analysis as well as the active ownership policies relating to investee engagement and proxy voting.

E Environment 	S Social 	G Governance 
Examples: <ul style="list-style-type: none"> • Climate Risk • Carbon Emissions • Biodiversity 	Examples: <ul style="list-style-type: none"> • Modern Slavery • Labour Rights • Diversity & Inclusion 	Examples: <ul style="list-style-type: none"> • Board Composition • Policy Advocacy • Exec. Compensation

The Office of Investments circulated an **ESG Due Diligence Questionnaire** (“DDQ”) to its investment managers in April 2023 to enhance the MIP’s monitoring process and identify engagement opportunities to promote responsible investment practices. Using insights from the responses, a scoring system was designed to ensure that each manager employed satisfactory ESG integration practices.

Process

The DDQ was designed in collaboration with SHARE and 11 Canadian universities. It also incorporated feedback from a range of McGill stakeholders including students. Questions were organized according to topics that were grouped into four modules: Organization Overview, Climate Action & Environmental Sustainability, Human Rights & Decent Work, and DEI & Indigenous Reconciliation. Further data was collected from responsible investment policies, proxy voting policies, ESG reports, and UNPRI reports.

Once the responses were aggregated into a single database, information was synthesized to construct a scoring system around three central criteria designed to highlight the relevant features of the investment process and understand managers’ practices holistically. **ESG Factor Integration** captures how managers assess material ESG risks and opportunities not captured by a traditional balance sheet, **Active Ownership** assesses how they interact with invested companies to promote socially responsible practices, and **Governance Structures** quantifies long-term confidence in the manager’s responsible investment approach.

ESG Factor Integration	Active Ownership	Governance Structures
How are ESG factors incorporated in the investment process?	How do engagement and proxy voting promote asset stewardship?	Are policy structures sufficient to manage future ESG and climate risks?

ESG Integration

Results

As of September 2023, ESG is now a formal component of the overall performance evaluation of the MIP's investment managers. The scoring system provides a score ranging from zero to three alongside written descriptions of responsible investment proficiency for each manager. The assessment established that the MIP's investment managers have **overall satisfactory** practices, and those underperforming are already taking steps to enhance their ESG integration.

The scoring process revealed valuable insights into their strengths and weaknesses; highlighting discussion topics and pathways to improvement. To demonstrate responsible asset stewardship, the Office of Investments met with managers when actionable opportunities for engagement were identified on matters relating to responsible investment.

99% of the MIP's assets are invested with managers that have an **ESG policy** or are signatories of the **UNPRI**

31 Managers Surveyed

- Explored range of RI approaches
- Identified strengths & weaknesses
- Formalized ESG within performance



4 Managers Engaged

Discussions of areas for improvement:
Sustainability Disclosures
Climate Risk *Industry Collaboration*

Next Steps

The DDQ is to be sent out annually to allow for the ongoing performance analysis of managers. In the interim period, the Office of Investments will continue to participate in forums, conferences, and trainings to keep abreast of industry best practices.

Moving forward, the DDQ is to be integrated within the hiring process of new managers to ensure that managers maintain a sufficient level of ESG integration. The Office of Investments also plans to develop a range of new questionnaires that are tailored to the relevant characteristics of the asset manager's specific mandate. For example, a real estate DDQ would focus on the manager's ESG integration with regards to energy efficiency strategies and the environmental impact of held properties. This will be done to better capture a manager's value creation with regards to ESG and impact.

Controversy Monitoring

The Office receives an ESG monitoring report produced by MSCI's ESG Impact Monitor. The report highlights MIP's equity holdings that are involved in moderate to high environmental controversies. These holdings are subject to discussion with investment managers. As of December 31, 2023, the MSCI ESG systems identified MIP equity securities with environmental controversies representing approximately 1.3% of the MIP.

Engagement

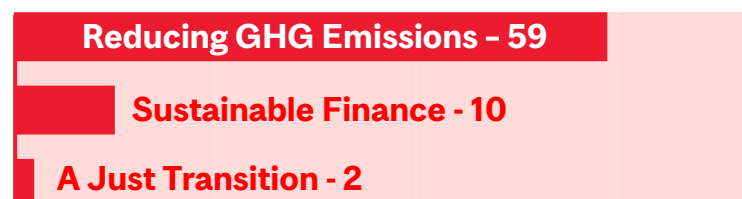
In 2019, the MIP committed to exercise, to the extent possible, active stewardship through investor engagement opportunities with investment managers.

SHARE

Active Stewardship is a responsible investment strategy that consists of shareholders leveraging engagement activities to support the transition a low-carbon economy. In 2019, McGill appointed SHARE to provide shareholder engagement services on climate-related issues for companies held within the MIP. Through SHARE's University Network for Investor Engagement ("UNIE"), a coalition of Canadian university endowments and pension plans, McGill has leveraged its power as a shareholder to advocate for the acceleration of the climate transition with investee corporations. SHARE on behalf of UNIE members typically engages to promote the adoption of carbon reduction goals, disclosure standards, sustainable finance and a just transition for workers.

During 2023, SHARE conducted **71 engagements** across **43 different** companies included within the MIP's portfolio and tracked 21 cases of **positive progress**.

Topic Breakdown



NFI Group



SHARE's engagement focused on the Canadian electric bus manufacturer to promote a just transition. Though well positioned to benefit from a low carbon economy, NFI's poor human capital management threatens its value creation and undermines worker autonomy. The firm agreed to align its human rights policy to reflect a commitment to non-interference in union activities.

Saputo



Through Climate Engagement Canada, SHARE engaged with Canadian dairy company Saputo Inc., outlining investor expectations for Canadian companies to set science-based targets on carbon reductions. Within its 2023 proxy statement, the firm agreed to an enterprise-wide climate commitment in line with the Paris Agreement and international standards.

Engagement

Proxy Voting

By virtue of owning shares in publicly-listed corporations, McGill has opportunities to influence investees by proxy voting on agenda items at shareholder meetings. Proxy voting covers a range of topics including corporate governance, board structure, and executive salaries, as well as climate change and human rights.

Following a proxy voting audit in 2022 and through the development of the ESG scoring system in 2023, the Office of Investments learned that two of the MIP's equity managers allow institutional investors to choose among a set of proxy voting policies for their holdings. Following an analysis of the options provided, the Office of Investments recommended the adoption of the Institutional Shareholders Services **SRI Policy** for McGill's US Large Cap mandate and the Glass Lewis & Co. **Climate Policy** for its US Small Cap mandate.

These policies were chosen due to their higher rates of support for Environmental and Social shareholder proposals, DEI reporting measures, equitable pay programs, and higher rates of opposition to board appointments when climate objectives are not met. This ability to choose between a set of proxy voting policies is a positive development for McGill's active ownership practices. In addition, a manager whose proxy voting policy guidelines were deemed unsatisfactory with regards to ESG topics during the 2022 audit has now updated their proxy voting policy to incorporate ESG considerations. The Office of Investments will continue to select ESG-conscious proxy voting policies whenever feasible and review its managers' proxy voting policies to encourage the improvement of their own proxy voting guidelines to align with industry best practices.

Negative Screening

Negative Screening is a responsible investing approach that consists of applying filters to exclude companies that do not comply with specific social or environmental criteria.

McGill donors can contribute directly to the Green Century Fund, a fossil fuel-free fund that does not invest in any company directly involved in extracting, processing or transporting coal, oil or natural gas. University Advancement has continuously promoted this fund which totalled \$9.2M at December 31, 2023. The MIP is also invested in the Desautels Capital Management SRI Fund, a student-managed strategy that seeks to generate high risk-adjusted returns while complying with ESG screens. Examples of the negative screens applied are armament manufacturing, child labour, fossil fuel activities, gambling and tobacco. The MIP had \$2.5M invested in the Desautels SRI fund at December 31, 2023.



Institutional Leadership

Since 2019, the Office of Investments has been incorporating sustainability within the management of the MIP and has aimed to be a leader in evaluating and promoting SRI policies and best practices.

Community

In April 2023, the Office of Investments was hosted by the Students' Society of McGill University and ESG McGill for a panel and Q&A discussing SRI trends featuring senior representatives and student leaders. The event was a valuable opportunity for community and student stakeholders to better understand the Office of Investments' work, learn actionable insights in the field of ESG, and explore the challenges of transforming the financial sector to address climate change. During the event, the Office of Investments announced it was offering two internships to enable students to learn and contribute to various SRI initiatives throughout the summer.

Collaboration

McGill is a member of investor advocacy groups that promote responsible investing. These strategic partnerships enable McGill to stay informed about emerging SRI matters. They include the United Nations Principles for Responsible Investment ("UNPRI"), Climate Engagement Canada, Intentional Endowments Network, and the Responsible Investment Association. In 2023, the Office of Investments leveraged these memberships to network with like-minded investors, gaining insights into ESG integration of alternative investments and obtaining feedback on different ESG data providers. In addition, following the responses to the first iteration of the DDQ, McGill collaborated with SHARE and provided valuable feedback to improve the survey's usability with the intent of helping other investors.

Professional Development

Investing in staff training is a key part of reaching the SRI commitments and maintaining a leadership position in the industry. Through professional development, staff can acquire new skills or knowledge but also enhance existing competencies to help advance McGill's SRI goals. In 2023, the Office of Investments staff received a total **89 hours** of SRI training on a variety of topics including climate risk, approaches to mitigate its impact on portfolio returns, and ability to seize opportunities arising from the transition to a low-carbon economy.

United Nations Principles for Responsible Investment

The Office of Investments finalized the MIP's inaugural United Nations Principles for Responsible Investment reporting in September 2023. Following its review, the UNPRI awarded a confidential score. The annual assessment from UNPRI will provide valuable insights on where efforts are needed to improve its practices thus improving the score over time. Members of the Office of Investments also participated in consultation sessions regarding progression pathways within the UNPRI.

Report

As established in the SRI strategy adopted in 2019, an SRI report shall be presented to the Board of Governors and published on an annual basis.

Accordingly, the 2023 Investment Committee Report on Socially Responsible Investing was presented to the Board of Governors and published on the Office of Investment website. These reports depict the progress that has been made against each commitment during the year. Prior to submission to the Board of Governors for approval, the SRI report is presented for feedback to the Committee on Sustainability and Social Responsibility.

Review

When the initial SRI commitments were approved in December 2019, the next review was expected to take place in 2025. Over the ensuing three years, the MIP managed to achieve these targets. Given this rapid progress, on April 20th, 2023, the Board of Governors triggered an early review of the strategy.

On December 14th, the Board of Governors approved a new set of SRI Commitments to be implemented starting in 2024. Additional information on these commitments is available at: <https://www.mcgill.ca/investments/mipendowment/socially-responsible-investing>.

Next year, the Investment Committee's Socially Responsible Investing (SRI) report will incorporate the additional commitments alongside a comprehensive status update. A review of SRI practices has been added to the Board of Governors' calendar of business in Spring 2029. See the following page for a summary of the new commitments.

Read More

Board of Governors

<https://www.mcgill.ca/boardofgovernors/>

**Committee on Sustainability
& Social Responsibility**

<https://www.mcgill.ca/boardofgovernors/committees-0/board-standing-committees/social>

Investment Committee

<https://www.mcgill.ca/boardofgovernors/committees-0/board-standing-committees/investment>

New SRI Commitments

Phase II approved by the Board of Governors in December 2023

Phase I

Decarbonization

Reduce emissions to **33%** below Benchmark (listed equities) by 2025

Impact Investments

Invest **5%** to generate social and environmental impacts by 2025

ESG Integration

Encourage managers to adhere to ESG policies and sign on to UNPRI

Engagement

Exercise active stewardship through voting and corporate engagement

Negative Screening

Invest in the fossil fuel-free fund & promote to the donor community

Institutional Leadership

Maintain a leadership role to evaluate and promote SRI best practices

Report

Publish an annual SRI report that is presented to the Board of Governors

Review

SRI practices were reviewed in 2023

Phase II

Reduce emissions to **33%** below benchmark (equities & **corporate fixed income**) by 2029 and **divest** direct investments in the **CU200™¹** by 2025

Allocate **10%** in “**Sustainable Investment Strategies**” by 2029

Integrate proprietary ESG **ratings** and 3rd party ESG **risk metrics** within manager monitoring and update SIP to reflect ESG commitments

Add “**Social**” and “**Governance**” engagement and promote adoption of ESG-conscious **proxy voting policies**

Continue to attract donations to the **fossil fuel-free funds**

Maintain a leadership role to evaluate and promote SRI best practices and **improve** McGill’s **UNPRI** score

Publish an annual report on SRI that is **TCFD-aligned** by **2029**

Reassess SRI targets on a 5-year basis, next review in **2029**

¹ Carbon Underground 200 list provided by FFI Solutions©