



OFFICE OF INVESTMENTS

Sustainable Investment Framework

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Chief Investment Officer & Treasurer

March 19, 2019

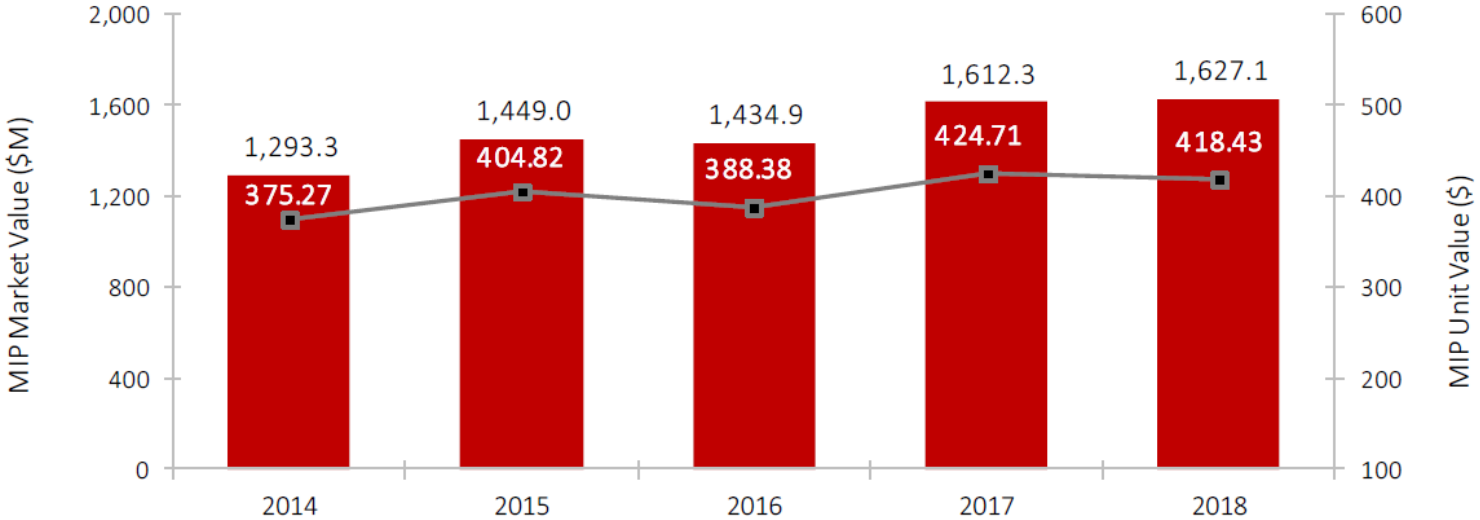
Office of Investments Mission - ENDOWMENT

- Manage the investments of the McGill Investment Pool (“MIP”) within policy guidelines to provide dependable and optimal source of income for endowment beneficiaries while preserving the real value of capital
- Recommend the selection of strategies, of investment managers and of service providers to the Investment Committee
- Manage the cash flow and the asset allocation
- Recommend the spending ratio in accordance with the expected long term return of the MIP and with the preservation of capital objective
- Report quarterly to the Investment Committee the performance investment objectives, asset mix and other aspects of the MIP

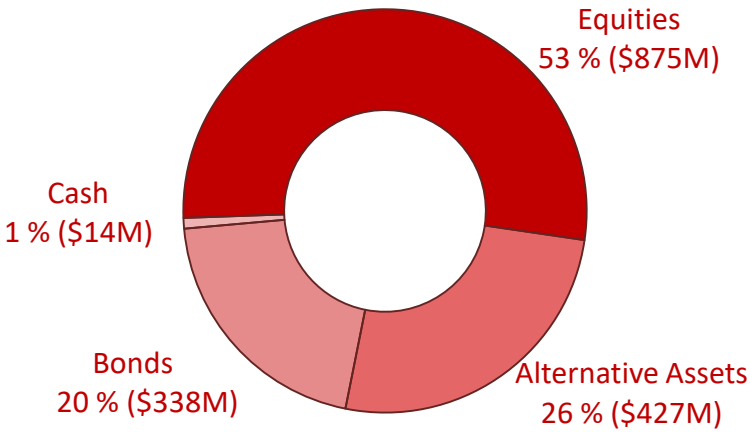
MIP: unitized pool formed in 1970 to allow for the investment of critical mass of assets thus providing for broad diversification and economies of scale that have over the years resulted in:

- Positive performance
- Reduced volatility
- Low administrative costs & investment management fees

Endowment – Evolution of Market Value (\$M)



Asset Allocation



Source: report on Endowment Performance 2017-18

Current responsible investment practices

Endowment

- A committee on social responsibility (CAMSR) advises the Board of Governors
- Commitment to select investment managers who adhere to ESG policy and/or are signatories of the UNPRI. The objective is to increase the percentage to a minimum of 80% by 2021
 - Well ahead of schedule (Dec 2015: 71% & Dec 2017: 79%)
- No holding in tobacco companies and in corporations that are engaged in activities that support the military regime in Burma in all segregated Equity and Fixed Income investment mandates
- Establishment of a \$5 million Fossil Fuel Free Investment Fund (FFF)
- Promotion of the FFF to donors for new donations
- Investment in a Socially Responsible Fund (ex. FF) managed by McGill students
- Transparency in reporting

Pension Plan

- Members of the Pension Plan can select the Socially Responsible Investment (SRI) option to invest their pension assets

Current responsible investment practices

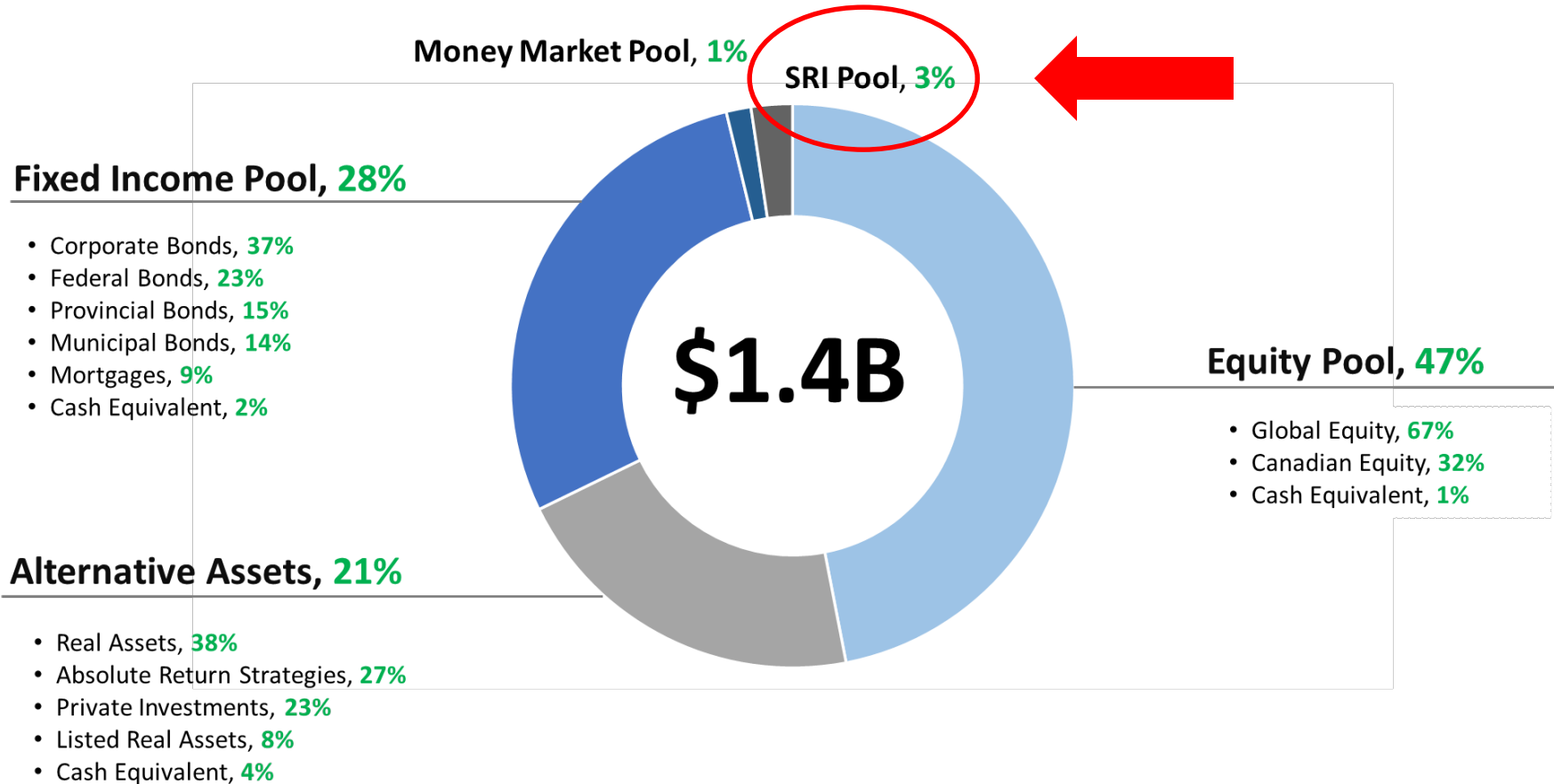
	Managers	AUM 2018	Jan-16	Dec-16	Dec-17	Dec-18
	#	\$	% of Assets	% of Assets	% of Assets	% of Assets
Total MIP *	46	1,583,533,501	100%	100%	100%	100%
Signatory to UN PRI	25	1,079,008,517	58%	63%	65%	68%
ESG Policy adopted	32	1,284,845,737	66%	59%	73%	81%
Signatory AND Policy	25	1,079,008,517	53%	45%	58%	68%
Signatory OR Policy	32	1,284,845,737	71%	77%	79%	81%
<p>* Includes entire McGill Investment Pool i.e. Public Equity, Fixed Income and Alternative Investments Note: Fidelity (7.1%), Brookfield (2.7%) and Alphadyne (1.7%) are the 3 most important managers that are neither UNPRI ¹⁾ signatory or adopted an ESG policy.</p>						

- Following CAMSR recommendations in 2016, the Investment Committee committed to increase assets managed by managers who had adopted ESG policies or were signatories of the UNPRI ¹⁾;
- The ratio went from 71% in January 2016 to 81% currently;
- The target was to reach 80% in 5 years;
- It shows that the committee considered the question seriously and quickly

¹⁾ UNPRI : United Nations Principles for Responsible Investment (see Appendix 1)

Pension Plan – Asset Allocation

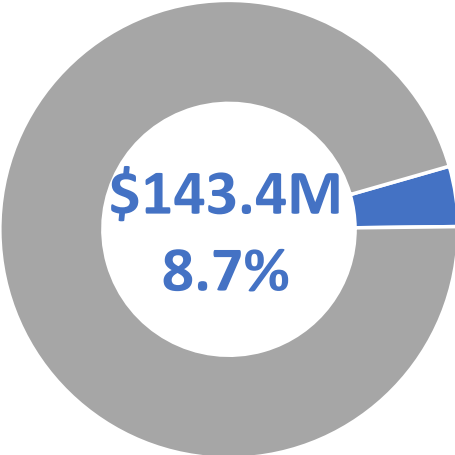
Accumulation Fund – Asset Allocation



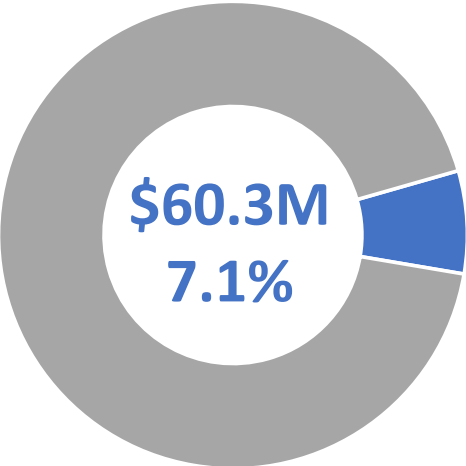
MIP | Current Energy Sector Exposure

■ Energy Exposure

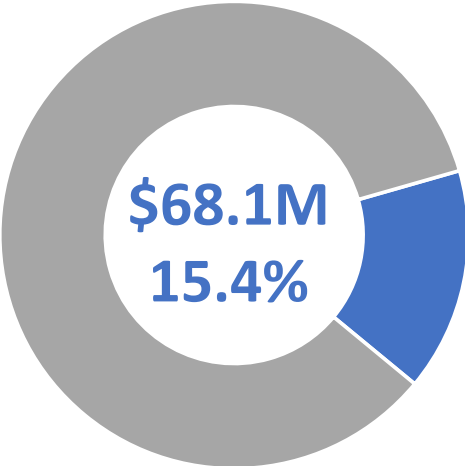
MIP



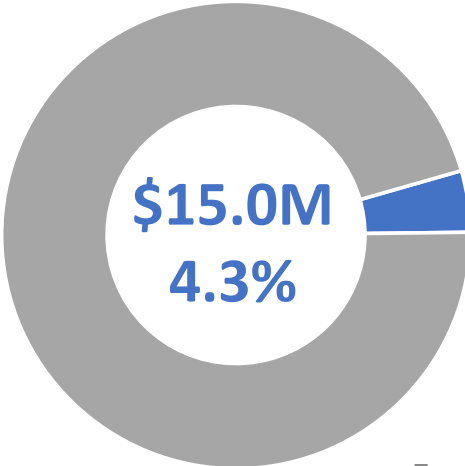
Equity



Alternative Investments

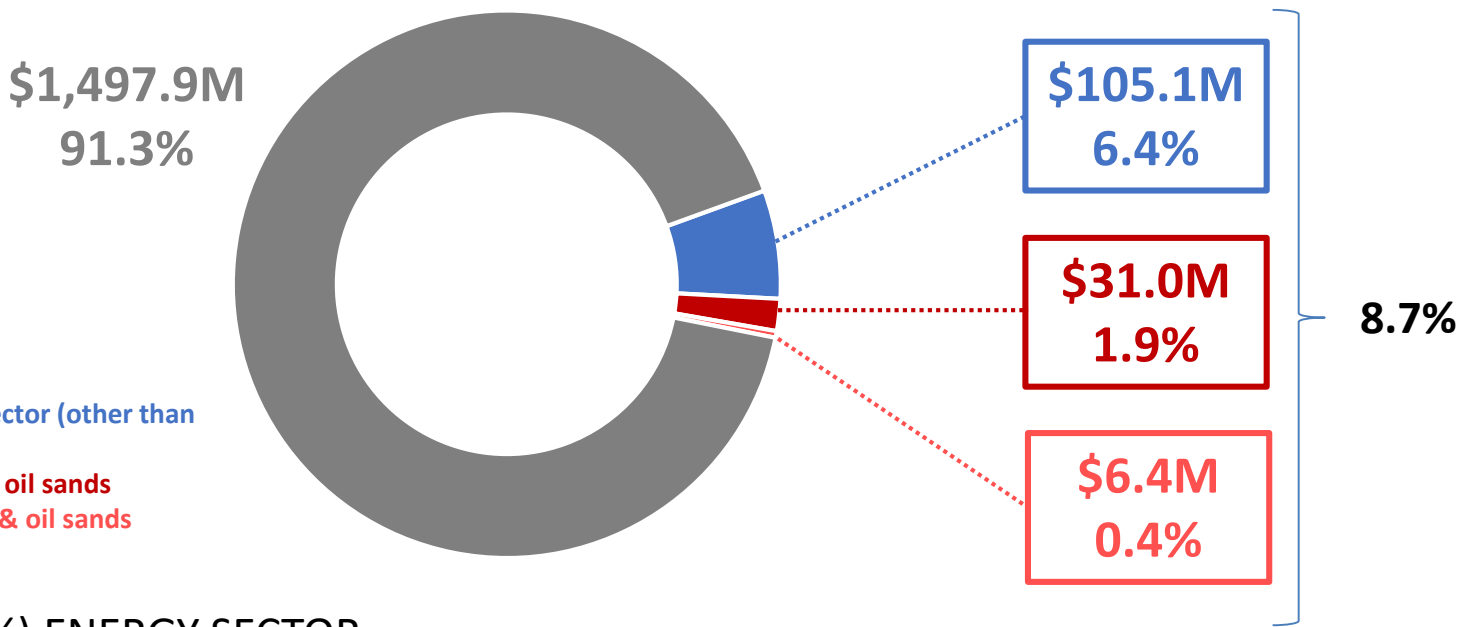


Fixed Income



MIP | Estimated Energy Sector, Coal & Oil Sands Exposure (March 31, 2018)

MIP Portfolio: \$1,640.4M



- Exposure in the energy sector (other than coal & oil sands)
- Direct exposure to coal & oil sands
- Indirect exposure to coal & oil sands

FROM \$142M (8.7%) ENERGY SECTOR



Possible reduction by mandate modification : \$56.8M (3.5%)

To reduce energy exposure by \$57M, the MIP would need to modify for \$680M of mandate



Possible reduction by mandate termination : \$25.7M (1.5%)

To reduce energy exposure by \$26M, the MIP would need to terminate managers managing \$633M of assets

Remaining exposure: 3.7% (Private funds)

Going ex-Fossil Fuels: Impact on Asset Management

- Reduces the pool of portfolio managers The office of Investments can select from
 - Not aware of Canadian Equity external manager managing an ex. fossil fuel mandate
 - Very limited number of ex fossil fuel Emerging Market funds (equities & bonds)
 - Very limited number of ex fossil fuel bond funds (especially domestic funds)
- Would have to change asset mix and strategies of the MIP
 - To reduce energy exposure by 5% (\$82M), the MIP would need to modify mandate and terminate managers managing **\$1.3B of assets**
 - Transition cost (impact cost, opportunity cost, trading fees)
- Would limit or exclude exposure to specific asset classes
 - Real Assets (15% of the MIP)
 - Hedge funds (5% of the MIP)
 - Private Equity and private debt (10% of the MIP)

Going ex-Fossil Fuels: Impact on Asset Management

A Concrete Example:

AMP Capital Infrastructure Private Debt Fund

- A private fund who lends money to large infrastructure projects in Europe, North America and Australia

A ex-fossil fuel policy would not allow this fund, even if most of its investments are non-fossil fuels, including a loan to a renewable energy project

ENERGY (non-Fossil Fuels)

- Bioenergy distributor in Sweden
- Solar panels & wind farms in Australia, France & emerging markets

TECH & TELECOM

- Telecommunication towers network in the U.S.
- Data centres in U.S. and Europe

ENERGY (Fossil Fuels)

- Gas power generation facilities across U.S. and Canada
- Liquefied Natural Gas terminals and pipelines in Texas and Louisiana

WATER TREATMENT

- Water desalination plant in California

TRANSPORTS

- Ports group in the UK

UN PRI Principles

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.