



17th of March, 2014

Subject: Review of the CAMSR Terms of Reference

To the Members of the Committee to Advise on Matters of Social Responsibility,

On behalf of the McGill Office of Sustainability, I am writing to formally submit our position with regards to the draft Terms of Reference of the Committee on Matters of Social Responsibility (CAMSR).

We would like to begin by praising the open and transparent process through which this consultation has taken place, which we feel sets an excellent precedent for transparency in governance here at McGill. We would further like to express our strong support for the increased level of proactivity that is embodied in the revised Terms of Reference, through the inclusion of paragraph 4.a., which mandates CAMSR to meet *proactively* to review questions of policy concerning social responsibility related to University investments within the mandate of the Investment Committee of the Board of Governors.

Relevance of the review of the CAMSR TORS for sustainability at McGill

The McGill Office of Sustainability supports McGill's mission to be a leader in on-campus sustainability initiatives and research by working to foster a culture of sustainability at McGill. We are interested in this process because Responsible Investment is core to our conceptualization of sustainability at McGill. According to McGill's Sustainability Policy (2010):

“Our goal is to become an institutional model of sustainability for society as we pursue our academic mission and play a positive and proactive role in communicating the rationale and need to develop and implement sustainable practices in the broader community.”

Furthermore, over the past two years, our Office has been working to develop a Sustainability Strategy for McGill through a project known as Vision 2020. Vision 2020 has reached out to over 1,000 students, staff, and faculty to identify one ambitious vision and 23 long-term goals for sustainability. Through this consultation process, it became apparent that Responsible Investment was a sustainability-related issue of major concern for our community. Accordingly, one of the Vision 2020 goals relates to Responsible Investment, whereby the goal states “McGill's financial portfolio is managed in accordance with the principles of sustainability (social, economic, and environmental)”.

According to the AASHE STARS¹ framework – the most widely adhered to sustainability performance assessment framework for institutions in higher education – Responsible Investment is a core area

¹ The Association for the Advancement of Sustainability in Higher Education (AASHE) has developed the Sustainability Tracking, Assessment, and Rating System (STARS) for universities to assess their sustainability performance. Available: <https://www.stars.aashe.org>

where universities can demonstrate a commitment to sustainability. Now in its second iteration, the AASHE STARS framework has been developed through a consultative process involving dozens of universities and sustainability experts. It contains specific guidance on best practices for incorporating environmental, social, and governance (ESG) considerations into investment decisions at universities, which we will refer to throughout this document. McGill University is currently rated as “mid-range silver” in terms of sustainability performance according to this framework. Aligning with established best practices would help McGill improve its rating toward “gold”.

General Comments

Our vision is that the social and ethical norms of the university pertaining to investments be clearly articulated, publicly available, and that they explicitly include ESG considerations. Furthermore, our vision is that any policies and procedures developed to support and enforce these norms be based on best practices in the field of Responsible Investment, that they be proactively and transparently applied, and that they be periodically revised in consultation with the community. Achieving this vision would help position McGill and CAMSR as a leader in the field of Responsible Investment within the context of higher education.

The McGill Office of Sustainability believes that McGill is well positioned to integrate ESG issues into its investment practices. While CAMSR’s revised Terms of Reference are a laudable step forward, our research indicates that there are grounds for concern that McGill will continue to fall short of best practices in Responsible Investment, especially within the context of higher education.

Prior to making any far-reaching changes to the CAMSR Terms of Reference, additional research is needed in order to systematically survey the evidence on best practices in Responsible Investment for comparable institutions. It is for this reason that our primary recommendation is for CAMSR to commission an independent review of best practices in Responsible Investment in higher education. In the sections below, we present some of the grounds for our concern that McGill has yet to embody best practices in Responsible Investment.

Grounds for concern

A. Avenues to engage CAMSR and initiate issue-specific reviews

According to the draft Terms of Reference, a petition is the only avenue through which members of the McGill community can engage with CAMSR and thus initiate a review of a given issue. Conversely, we note that committees with similar mandates at some of McGill’s peer institutions provide additional avenues for participation (see below). Within the scope of a best practices review, the McGill Office of Sustainability therefore recommends researching best practices relating to: i) the approaches used by peer institutions to initiate deliberations and come to conclusions, and ii) the voices included in deliberations and decision-making (e.g., experts, students, senior staff, etc.).

According to Farrell (2013), Columbia University, the University of Toronto, and Stanford University are all examples of institutions with more “proactive” Responsible Investment committees. At Columbia University, the Responsible Investment Committee proactively selects a set of issues with implications for Responsible Investment each year, and then proceeds to examine these issues throughout the year while also responding to emerging issues (Columbia University, 2000). At the University of Toronto, the

Responsible Investment committee can meet up to 12 times per year and sets its own agenda for each meeting (University of Toronto, 2010). At Stanford University, the Advisory Panel on Investment Responsibility (APIR) is responsible for reviewing and researching allegations relating to Responsible Investment (Stanford University, 2010).

It is important that a review of best practices explore opportunities to engage subject matter experts, either as members of CAMSR or as independent advisors. At Brown University, the Responsible Investment committee has a research assistant in place to help the Committee in their investigations and analyses (Brown University, 2007). As it stands, CAMSR's draft Terms of Reference provides no avenue through which CAMSR can seek out – either regularly or on an ad hoc basis – expert input. The members of CAMSR are not chosen on the basis of their expertise in Responsible Investment practices, and nor should they be. However, they should have access to such expertise when required.

B. Criteria for evaluating Responsible Investment decisions

The draft Terms of Reference state that CAMSR will “consider the merits of an expression of concern and make findings exclusively on the criterion of social injury”. We note that some peer institutions use a criterion other than “social injury” to guide Responsible Investment decisions and to trigger actions such as divestment or shareholder resolutions.

Importantly, the definition of *social injury* stated in the draft Terms of Reference excludes any consideration of the environmental implications of a given set of activities. Some of McGill's peer universities employ a criterion other than *social injury* to guide Responsible Investment decisions, whereby environmental considerations feature more prominently. For example, Brown University has adopted the criterion of *social harm*, where social harm is defined as “the harmful impact that the activities of a company or corporation have on consumers, employees, or other persons, or on the human or natural environment” (Brown University, 2007). Another criterion used by university endowments is *substantial environmental harm*, defined as “conduct that violates, subverts, or frustrates the enforcement of rules of domestic or international law intended to protect the environment”² (University of Pennsylvania, 2003).

As it stands, CAMSR's draft Terms of Reference frame CAMSR's mandate in relation to social responsibility, with no explicit regard for environmental responsibility. With this limited scope in mind, our Office recommends that a review of best practices consider whether CAMSR's mandate should be adjusted to address both social and environmental responsibility. We note that expanding the scope would better align CAMSR with McGill's Sustainability Policy (2010). Also, in order to align with the best practices advocated under the AASHE STARS framework, McGill would need to demonstrate:

The existence of a multi-stakeholder committee on Responsible Investment, where social **and** environmental responsibility are an explicit part of its mission (*Credit PA 13. Committee on Investor Responsibility*) (AASHE, 2013).

² Note that “only actions or inactions by companies that is proximate to and directly responsible for identifiable social injury will be regarded as falling within these guidelines”. (University of Pennsylvania, 2003).

A review of best practices would help McGill evaluate the alternative Responsible Investment criteria and determine whether or not the criterion of social injury is appropriate going forward.

C. Responsible Investment strategies

McGill's current approach to Responsible Investment, as enshrined in CAMSR's draft Terms of Reference, relies exclusively on two Responsible Investment strategies: i) divestment and ii) shareholder engagement. Our research indicates that Responsible Investment can include a wide range of investment strategies that consider environmental, social, and governance factors. These include, but are not limited to: i) community investment, ii) shareholder advocacy, iii) positive screening/impact investing, and iv) negative screening/divestment (REC, 2012).

Notably, community investment is reported to be the fastest growing area of responsibly invested money in the United States, and assets have grown from \$4 billion to \$41 billion in the past ten years (The Forum for Sustainable and Responsible Investment, 2011). The University of Chicago and Harvard University include community investment as part of their approach to Responsible Investment (REC, 2012). Other strategies worth considering are impact investments and positive screening – also known as the 'best in class' approach. According to the University of British Columbia's Responsible Investment Strategy (2013), UBC has committed to making direct investments in environmental and social projects, where these investments are already worth \$382 million.

According to the draft Terms of Reference, in cases where action is warranted, CAMSR's actions are limited to shareholder advocacy (see Section 7bi, 7bii, 7biii) and negative screening/divestment (7biv). The McGill Office of Sustainability recommends moving forward with an independent review of best practices in order to evaluate a full suite of Responsible Investment strategies, including, but not necessarily limited to, the four strategies listed above. With this information, CAMSR will be poised to make an informed decision about the choice of the RI strategies best suited to the McGill context.

Should CAMSR choose to pursue strategies such as positive screening, impact investing, and community investment, McGill would better align with best practices established by the AASHE STARS framework:

Demonstrable positive sustainability investments (e.g., sustainability investment funds, positive screening) OR the existence of policies and/or practices for investor engagement (*Credit PA 14. Sustainable Investments*) (AASHE, 2013).

D. Mechanisms for transparency

We note that McGill already applies a number of good RI practices. For example, it is standard practice for McGill investment staff to make inquiries of current investment managers during their regular reviews, and during due diligence on potential investment managers. These inquiries focus on the managers' practices with respect to policies on ESG/sustainability and whether managers are signatories

of the UNPRI. Similarly, it is standard practice at McGill to publicly divulge the contents of our investment portfolio, by posting them on the McGill website on a quarterly basis.

Unfortunately, practices such as these are not common knowledge within the McGill community.

A review of best practices could be leveraged to investigate ways to increase the transparency of McGill's approach to RI and of CAMSR's activities. As it stands, the draft Terms of Reference currently state:

8b. The Committee shall report to the Board regularly following its receipt of an expression of concern and at least once a year.

However, this clause does not specify *what* information is included in reporting. We note that the University of Toronto's Responsible Investment Committee's Terms of Reference provides a good example of an expanded section on reporting (University of Toronto, 2010). Section 5 specifies what an annual report must include, notably the annual agenda, a summary of the issues addressed, the actions taken with respect to agenda items, the *reasons* of the committee, the votes, and an update on the status of recommendations. It is then submitted to the Vice President, Business Affairs and made publicly available online.

In regards to transparency and in order to align with the best practices advocated under the AASHE STARS framework, McGill would need to develop:

An annual snapshot of investment holdings – including the amount invested in each fund and/or company and proxy voting records – that is reported to the public (*Credit PA 15. Investment Disclosure*) (AASHE, 2013).

E. Responsible Investment policies

A growing number of McGill's peer universities have an explicit Responsible Investment policy/statement that outlines their approach to Responsible Investment. In Canada, McMaster University and Queens University have explicit Responsible Investment policies (CURI, 2013). In the US, Stanford, Dartmouth, Columbia, and Georgetown, among others, have explicit Responsible Investment policies (IRRC, 2012).

A review of best practices should address whether or not a Responsible Investment Policy would provide a needed touchstone for McGill's investment activities. As it stands, Section 3 of the draft Terms of Reference articulate CAMSR's mandate as:

The Committee shall advise the Board of Governors on matters concerning social responsibility related to University investments within the mandate of the Investment Committee of the Board.

This statement fails to articulate McGill's values vis-à-vis Responsible Investment. A Responsible Investment Policy may help McGill to fill this gap, and help to guide CAMSR's activities in the future.

Conclusion and recommendations

Recommendation #1: Commission an independent review of best practices in Responsible Investment in comparable institutions.

Recognizing that Responsible Investment can take many forms, it is important that McGill weigh alternative options for the McGill context. An independent review of best practices would help provide CAMSR with the evidence required to make informed decisions about Responsible Investment policies and procedures, and to find solutions that are the right fit for McGill's asset allocation. Should CAMSR choose to pursue this recommendation, there would be an opportunity to apply to the Sustainability Projects Fund for resources to accomplish the review. Engaging with the Investor Responsibility Research Center Institute (IRRCi) – a non-profit organization that funds environmental, social, and corporate governance research – could be another worthwhile avenue to explore.

The review of best practices should include particular attention to the following areas:

- A. Avenues to engage CAMSR and initiate issue-specific reviews
- B. Criteria for evaluating Responsible Investment decisions.
- C. Responsible Investment strategies
- D. Mechanisms for transparency
- E. Responsible Investment policies

While there is a diversity of approaches to Responsible Investment at peer universities, what these front-running institutions have in common is a track record of careful evaluation and transparent decision-making processes around Responsible Investment. As the meaning of Responsible Investment continues to evolve, so too does our obligation to be proactive leaders in the field. As such, we strongly recommend an independent review of best practices. With this information in hand, we believe CAMSR would be poised to demonstrate a strong commitment to Responsible Investment on behalf of McGill University.

Recommendation #2: Amend the wording of the CAMSR Terms of Reference to make explicit reference to best practices in the field of Responsible Investment, as well as explicit reference to integrating environment, social and governance considerations in investment decision-making.

This could for example be achieved by revising the current wording of paragraph 4.a of the draft TORs as follows:

"a. The Committee shall meet at least once per year to review questions of policy concerning social responsibility related to University investments within the mandate of the Investment Committee of the Board, in light of best practices in the field of Responsible Investment. The

Committee may report and make recommendations to the Board with respect to how to best integrate environmental, social and governance considerations into such policy matters."

Recommendation #3: Invest resources into documenting and communicating McGill's practices with respects to Responsible Investment.

As illustrated previously, McGill currently adheres to a number of good practices in the area of Responsible Investment, but these practices are unfortunately unknown to many in the community.

In the short term, this situation could be addressed with relatively few resources, for example by developing a brief "*Guide to the Responsible Investment landscape at McGill*". In the medium term, we recommend the adoption of a McGill policy on RI, as the ultimate public statement of our values and practices in this important area of sustainability policy.

In conclusion, we would again like to thank the members of CAMSR for initiating this open consultation process. The McGill Office of Sustainability is prepared to offer whatever assistance it can going forward.

Yours sincerely,



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