

February 22, 2016

DIVESTMENT RISK ASSESSMENT Discussion Guide

Preamble:

UWinnipeg's Board of Regents adopted the University's Campus Sustainability Policy and sustainability management framework in 2006 on the recommendation of the President's Task Force on Sustainability, comprised of students, faculty and staff. Since then, our institution has realized several sustainability achievements and received several sustainability awards. To date, our work has emphasized efforts to reduce campus greenhouse gas emissions in a manner that is consistent with Canada's international commitments.

Universities around the world continue to make great strides in their efforts towards supporting the revitalization and resilience of ecosystems and communities. As many of these practices become mainstream, new questions and issues emerge. As leaders in the global transition towards sustainability, universities around the world are being challenged to consider how their sustainability commitments map onto their investment practices. This question is being raised in leading sustainability benchmarking and rating tools such as the Sustainability Tracking Assessment and Rating System (STARS). It is also being raised through the rapidly growing global fossil fuel divestment movement.

Fossil fuel divestment is the removal of investment assets including stocks, bonds, and investment funds from companies involved in extracting fossil fuels. In 2014, the Canadian Federation of Students (CFS), which represents 500,000 students across Canada including The University of Winnipeg, passed a resolution endorsing fossil fuel divestment. Specific divestment at UWinnipeg was raised by the University of Winnipeg Students' Association in a letter to Dr. Annette Trimbee, President and Vice-Chancellor, in the fall of 2014. The UWSA letter calls for:

- An immediate freeze on any new investment in fossil-fuel companies;
- Divestment within three years (2018) from direct ownership and from any commingled funds, which include fossil-fuel public equities and corporate bonds.

In March 2015 Dr. Trimbee committed to the Board of Regents that the University would examine the issue of divestment as it pertains to both Foundation endowment investment and pension plan investments by conducting a dual track risk assessment. The process allows for external expertise and campus community input. A six member oversight committee provides direction.

Oversight Committee:

Dr. Annette Trimbee, President and Vice Chancellor, The University of Winnipeg
Brian Daly, President and Chief Executive Officer, The University of Winnipeg Foundation
Peyton Veitch President, The University of Winnipeg Students Association
Eric Johnstone, Chair, Board of Regents
Dr. Danny Blair, Associate Dean of Science
Rob Ballantyne, Aboriginal Issues Committee of Cabinet, Manitoba government

The Canadian Experience:

The Canadian Youth Climate Coalition is partnering with global organizer 350.org as the umbrella organization on campuses spearheading the divestment movement. No Canadian university or pension fund has endorsed full divestment to date; however, a number of other Canadian institutions have. These include the United Church of Canada, the City of Victoria, the Canadian Medical Association, the Catherine Donnelly Foundation, and the David Suzuki Foundation.

Both the Ontario Teachers' Pension Plan and Canada Pension Plan Investment Board have stated that they will not divest.¹ Canadian Universities are at different stages in their divestment debates.

- In November 2014, **Concordia University** became the first university in Canada to agree to partially divest \$5 million of its endowment from fossil fuels.
- In November 2015, **Dalhousie's Board** voted not to divest but is investigating ways to allow new Dalhousie benefactors to channel their donations to environmentally sustainable fund options.
- **Trent's Board** voted not to divest at the recommendation of the Investment and Pension Committee and instead chose to establish an endowment category based on the United Nations Principles for Responsible Investment (UN PRI.)
- In July 2015 the **University of Guelph's** working group on responsible investment issued its final report. It did not include a recommendation to divest. It did include other recommendations, including establishing guiding principles and processes, responsible investment policies and performance measures. It emphasizes the need to align the University's investment policy and related choices with its strategic directions and institutional values. The Divestment campaign is ongoing.
- In November 2015, **Queen's University** elected not to divest. The advisory committee concluded that divestment was not an effective tool in mitigating the risks of climate change.
- In February 2015, the **University of Calgary** stated that the University will not divest or change current investment policies.
- In December 2015, a **University of Toronto** advisory committee recommended divestment from fossil fuel companies that "blatantly disregard" efforts to combat climate change. The committee singled out ExxonMobil, ConocoPhillips, and Peabody Energy as "clear examples" of companies that UToronto should sell its shares in. The process of reviewing the recommendation is underway.
- The **University of British Columbia** has proposed a \$10 M sustainability fund instead of divesting from fossil fuel companies. Its Board votes on the proposal on February 15th.
- The **University of Manitoba** Students' Association passed a resolution in the spring of 2015 that gave UMSU a mandate to ask the University to divest \$64 million in university petroleum investments – approximately 10% of that university's endowment. To date, Divest UM has been gathering endorsements from a broad range of student groups and associations; however, no formal request for a formal process has been submitted to the University from UMSU or from Divest UM.
- **Brandon University** does not appear to have an active divestment campaign.

Student referendums to endorse divestment have been passed at eleven Canadian universities. Six universities have had affirmative divestment votes from faculty members.

¹ <http://www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/ontario-teachers-cpp-investment-board-opt-to-maintain-fossil-fuel-assets/article27934831/>

The International Experience:

To date, approximately 500 institutions around the world have made divestment commitments, representing approximately \$3.4 trillion. Faith-based groups and foundations together represent over 50% of institutions with divestment commitments. Governmental organizations and pension funds each represent 13% of institutions with divestment commitments. Colleges, Universities and School represent 11% of committed institutions. Non-governmental organizations, for-profit corporations and health institutions make up the balance.

Notable divestment commitments include the Rockefeller Brothers Fund, the Norwegian Sovereign Wealth Fund, the British Medical Association, the California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS) pension funds (coal only), the Church of England (coal & bitumen only), Oxford University (coal and bitumen only), the University of California (coal and bitumen only), the University of Hawaii, the School of Oriental and African Studies, the London School of Economics (coal & bitumen only), and several cities.

Fiduciary and financial risks:

The University of Winnipeg's investments are housed within the University of Winnipeg Foundation. The Foundation was established by The University of Winnipeg Board of Regents in 2002. Charitable status was achieved with the Canada Revenue Agency on October 2, 2002, when The University of Winnipeg Foundation was registered as a public foundation, with a single focus on revenue development for the University and its Collegiate from private sources. The Foundation is separately incorporated and arms-length from the University. The strategic intent of the Foundation is to substantially increase the value of charitable gifts in support of the needs of The University of Winnipeg by delivering a comprehensive fundraising campaign and by being responsible and accountable for investment management and growth.

Currently, MFS Investment Management is responsible for the Foundation's investments. MFS adheres to United Nations Principles for Responsible Investing (UNPRI). Responsible investment explicitly acknowledges the relevance to the investor of environmental, social and governance factors, and the long-term health and stability of the market as a whole. It recognizes that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems.

The Foundation's Investment Policy states that: "the Fund must be invested in a manner that ensures liquidity and a net long-term real rate of return at least equal to the annual withdrawal rate."

The 2015 October Market Value of the Foundation's Endowment Fund is \$57.5 million and is home to 567 individual endowments. Of the Foundation's total investments, \$2,583,176.00 (4.6%) is invested in fossil fuels, which is distributed among 16 companies listed in the Carbon Underground 200.

In 2008 administration of The University of Winnipeg's Pension Plan was transferred from the University to an Independent Board of Trustees. Of the fifteen trustees, six are appointed by our unions, one is elected by excluded staff, two are appointed by the retirees association, three are appointed by the University and three are external trustees appointed by the Board.

The Pension Plan has two components; the Defined Benefit (DB) component was closed to new members in 2000. The roughly \$128 million in DB Plan assets are managed by professional investment managers appointed by the trustees. These managers manage the Plan's assets in accordance with a Statement of Investment Policy developed by the trustees.

All new members to the Plan join The Defined Contribution (DC) component of the Plan. DC members make their own investment choices, allocating their assets to pooled funds selected from a menu determined by the Trustees. At December 31, 2014 there were about \$52 million in assets in the DC segment of the Plan.

The financial impacts of divestment are debated. Several studies have attempted to evaluate how divested portfolios might perform.² The findings of these studies range from predicting increases in divested portfolio performance over time to decreases in performance over time, as compared to non-divested portfolios. Evaluations focussing only on the last three years (rather than modelling a longer historical period or modelling years into the future) all found that divested portfolios would have performed better than portfolios with fossil fuel holdings.³ This three year period includes the recent dramatic drop in oil prices. Different predictions about the future prices of oil⁴ will inform how this specific finding should be interpreted.

One of the major issues underlying many of the debates about fossil fuel divestment is the question of stranded assets and different assumptions about the role of fossil fuels in Canada's and global economies as countries work to implement climate commitments, particularly since the Paris Accord. These climate commitments imply a "carbon budget" – the amount of carbon that can be burned while keeping global temperature rise to well below 2 degrees. By many accounts, this international carbon budget implies that substantial proven fossil fuel reserves (nearly 85% of some reserves) will have to be left in the ground.⁵

Based on these numbers, some argue that investors with fossil fuel holdings put themselves at financial risk because governments will act more aggressively to constrain fossil fuel extraction in the coming years. These regulatory moves would cause fossil fuels to be stuck in the ground (i.e. stranded) and the value of companies holding those assets would decline. This decline, in turn, would have a negative impact on endowment and pension funds.

The severity of the financial risk associated with stranded assets is a matter of significant and substantial debate. Projections of the future performance of fossil-fuel investments depend on assumptions about future scenarios for policy, science, technology and social momentum. While many assert that the

² <http://www.impaxam.com/fossil-fuel-divestment-research-finds-performance-not-issue>;
<http://www.tai.org.au/content/climate-proofing-your-investments-moving-funds-out-fossil-fuels>;
<https://www.aperiogroup.com/resource/138/node/download>;
http://www.msci.com/resources/factsheets/MSCI_ESG_Research_FAQ_on_Fossil-Free_Investing.pdf
<https://www.aperiogroup.com/resource/138/node/download>

³ <http://www.thestar.com/business/2015/12/16/u-of-t-advised-to-sell-coal-energy-assets-in-its-funds.html>
<https://www.policyalternatives.ca/publications/reports/pension-funds-and-fossil-fuels>
<http://www.cbc.ca/news/business/corporate-knights-fossil-fuel-divestment-1.3321265>

⁴ http://business.financialpost.com/news/energy/oil-prices-could-stay-low-for-the-next-15-years-in-a-world-awash-with-oil-goldman-warns?_lsa=f0a4-4005
http://business.financialpost.com/news/energy/oil-forecaster-ed-morse-sees-oil-price-rebound-but-dont-count-on-us100-levels-again?_lsa=f0a4-4005

<http://business.financialpost.com/diane-francis/in-davos-oil-movers-and-shakers-are-bullish-on-oil-prices>

⁵ <http://www.carbonbrief.org/meeting-two-degree-climate-target-means-80-per-cent-of-worlds-coal-is-unburnable-study-says>
<http://sei-us.org/Publications/PDF/SEI-DB-2014-Fossil-fuels-green-growth-unburnable-carbon.pdf>
<http://www.nature.com/nature/journal/v517/n7533/abs/517150a.html>

stranded asset risks makes divestment the only smart choice, others argue that demand for fossil fuels will continue to increase and that the stranded asset risk is being significantly overstated. Others still will say that climate-proofing an investment portfolio requires a more nuanced approach than fossil fuel divestment offers because many classes of assets are exposed to risks related to climate change and climate policies that will constrain fossil fuel production.

The University will be welcoming experts onto campus in March 2016 to help us better understand this debate and consider it in relation to our own investments.

Academic and Reputational Risks:

For many, a decision related to fossil fuel divestment should be about values alignment, not about financial risk. This is true for divestment proponents as well as for those who advocate maintaining current investment practices or introducing an alternative approach to climate-proofing investments.

The main speaking point from the Fossil Free campaign is “If it is wrong to wreck the climate, then it is wrong to profit from that wreckage.”⁶ Many people making this argument will point to the importance of intergenerational equity in making investment decisions. Today’s university students will inherit the results – negative and positive - of climate action taken today.

Some will argue that while the University should value intergenerational equity by aligning actions with its sustainability values and commitments, the issue of fossil fuel investments requires a more nuanced solution than divestment.

Others will ask whether a university can simultaneously take a strong position on this type of issue and still support an environment dedicated to research and teaching excellence.

Others will have different perspectives still.

UWinnipeg must also consider how the divestment question aligns with its commitment to Indigenization. The divestment question in Canada is strongly connected to the rights of Indigenous Peoples. There is substantial debate about the ways in which Indigenous Peoples should be consulted as fossil fuel development projects unfold, and substantial debate about how they might benefit from economic opportunities related to this kind of development.

The University looks forward to unpacking these questions through vibrant engagement and dialogue on campus.

Academic and Campus Engagement:

The primary mandate of our University is to encourage critical thinking and informed debate that allows for multiple viewpoints and to nurture engaged citizenship.

The divestment issue provides an opportunity for UWinnipeg to offer a wide range of perspectives and expertise in a campus-wide conversation. Through March 2016 we are planning three engagement events that will challenge us to broaden and deepen our thinking on the divestment question. Internal and external guests will address financial and fiduciary issues, Indigenous rights and the effectiveness of divestment as climate solution.

⁶ <http://gofossilfree.org/about-fossil-free/>

Concurrent with these events, we will present educational seminars with key UWinnipeg governance groups when experts are in town for the public events. Additionally, The University of Winnipeg Foundation is conducting surveys with donors who have contributed to the Endowment Fund.

Timeline:

By late February we will launch a divestment website (uwinnipeg.ca/divestment) which will provide more detailed information and here we will accept written submissions from the UWinnipeg community, until March 25. Written submissions may take the form of an online prompt question(s)/ questionnaire (in development).

By mid-April we will synthesize notes and ideas from all these sources into a “What We Learned” document that will be posted online.

The oversight committee will review materials as part of the decision making process. A recommendation on the divestment issue will go to the Board of Regents for consideration in May 2016.