



**2017-2018**

**Responsible Investment Report**

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## Background

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In 2016, the Board of Regents created the Responsible Investment Sub-committee.

The Sub-committee brought forward a number of recommendations, which the Board approved in April 2017.

Those recommendations included:

- Updating applicable investment policies to consider environmental, social, and governance factors (ESG)
- Providing donors with the option to invest new donations in a fund that excludes or limits investment in certain sectors
- Becoming a signatory to the United Nations Principles of Responsible Investment (UNPRI)
- Making available a list of the underlying stock and bond holdings of the University's pooled funds
- Producing an annual report on the University's responsible investment activities

This is the first annual report detailing the progress made by Mount Allison to implement these recommendations.

### What is responsible investment?

Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to ensure that all relevant factors are accounted for when assessing risk and return.

### What are environmental, social and governance (ESG) factors?

Examples of environmental, social and governance (ESG) factors are numerous and ever-shifting. They include:

- **Environmental** — climate change, greenhouse gas (GHG) emissions, resource depletion, waste and pollution, deforestation
- **Social** — working conditions, including slavery and child labour; local communities, including Indigenous communities; conflict; health and safety; employee relations; diversity
- **Governance** — executive pay, bribery and corruption, political lobbying and donations, board diversity and structure, tax strategy

## United Nations supported Principles for Responsible Investment (PRI)

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Mount Allison is one of a few Canadian universities to become a signatory to the Principles for Responsible Investment (PRI). Mount Allison joined the PRI in May 2018.

The PRI (<https://www.unpri.org/>) is an international proponent of responsible investment with signatories from around the globe. It supports signatories in incorporating environment, social, and governance (ESG) factors into their investment decisions and encourages investors to use responsible investment to enhance returns and better manage risks. The PRI is supported by the United Nations.

The PRI outlines the following six principles for responsible investment:

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
- Principle 6: We will each report on our activities and progress towards implementing the Principles.

In the future, Mount Allison will publicly report annually on its progress in meeting the six principles.

## Mount Allison investment policies

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Mount Allison has a number of policies that govern its investments, including policies that outline how short-term cash balances will be managed and invested, how the endowment fund will be managed and invested, and how much of the endowment fund can be spent each year.

In 2017, Mount Allison's Board of Regents approved an update to the Endowment Management Policy (Policy 7205) to include ESG factors as one of the beliefs which guide decision-making on investments.

The University does not directly invest in shares or bonds of companies. Instead, like other university endowments and pension funds, pooled investment vehicles are used, which provide Mount Allison with a more cost-effective way to achieve diversification. This means that Mount Allison does not have direct control over the individual securities held in those pooled funds.

Instead, Mount Allison selects and continuously monitors third-party investment managers and uses an investment consultant to assist with this process.

ESG issues are also now a formal consideration in the selection of investment managers and other service providers. In addition, Mount Allison will engage with its investment managers and encourage them to engage with investee companies to improve corporate ESG performance.

### How do Mount Allison's investment managers incorporate ESG factors?

With the support of an investment consultant, investment managers are regularly monitored. The following table provides a list of our investment managers as of Sept. 30, 2018 along with their status as UNPRI signatory and details on their approach to responsible investing.

Asset Class / Strategy	Firm	UNPRI Signatory	Further details on the firm's approach to responsible investment
Fixed Income	BlackRock	Yes	<a href="https://www.blackrock.com/corporate/about-us/investment-stewardship">https://www.blackrock.com/corporate/about-us/investment-stewardship</a>
Canadian Equity	Connor, Clark & Lunn	Yes	<a href="https://www.cclgroup.com/cclim/en/home/what-we-do/responsible-investing">https://www.cclgroup.com/cclim/en/home/what-we-do/responsible-investing</a>
Canadian Equity	Phillips, Hager & North	Yes	<a href="https://institutional.phn.com/our-solutions/esg/content/default.fs">https://institutional.phn.com/our-solutions/esg/content/default.fs</a>
US Equity	Commonfund	Yes	<a href="https://www.commonfund.org/investments/capabilities/responsible-investing/">https://www.commonfund.org/investments/capabilities/responsible-investing/</a>
International Equity	Fidelity Investments	Yes	<a href="https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/about-fidelity/ESG-StatementofPolicy.pdf">https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/about-fidelity/ESG-StatementofPolicy.pdf</a>
Global Equity Small Cap	Dimensional Fund Advisors	Yes	<a href="https://us.dimensional.com/about-us/corporate-governance">https://us.dimensional.com/about-us/corporate-governance</a>
Emerging Markets Equity	Schroders	Yes	<a href="https://www.schroders.com/en/insights/topic-landing-page/?categoryId=239">https://www.schroders.com/en/insights/topic-landing-page/?categoryId=239</a>
Infrastructure	Grosvenor Capital Management	Yes	<a href="https://www.gcmgrosvenor.com/responsible-investing/">https://www.gcmgrosvenor.com/responsible-investing/</a>
Global Equity (Low-volatility)	TD Asset Management	Yes	<a href="https://www.tdaminstitutional.com/tmi/content/AU_CorpVision?language=en_CA">https://www.tdaminstitutional.com/tmi/content/AU_CorpVision?language=en_CA</a>
Hedge Fund	Abbey Capital	No	
Targeted Return Strategy	Aviva	Yes	<a href="https://www.avivainvestors.com/en-gb/institutional/about-us/responsible-investment.html">https://www.avivainvestors.com/en-gb/institutional/about-us/responsible-investment.html</a>

## Spotlight on a sample of our investment managers' responsible investing activities

### **Phillips, Hager & North Investment Management (PH&N),**

*a division of RBC Global Asset Management Inc.*

We aim to add value while controlling risk. At PH&N and across RBC Global Asset Management (RBC GAM) teams globally, our approach to responsible investment contributes enormously to this effort.

**RBC GAM's Approach to Responsible Investment:** We believe that by acting as an active, engaged and responsible owner we are better able to enhance the long-term, sustainable performance of our portfolios. Accordingly, we integrate material environmental, social, and governance (ESG) factors into our investment process across all asset classes.

The **RBC GAM Corporate Governance & Responsible Investment (CGRI)** group leads the organization's efforts in corporate governance and responsible investment, and assists all investment teams in integrating ESG into their respective investment processes. The CGRI group also oversees RBC GAM's global efforts to promote responsible investing: RBC GAM is a founding member of the Canadian Coalition for Good Governance and Investor Stewardship Group; is a sustaining member of the Responsible Investment Association; is a signatory to the UK Stewardship Code, the Carbon Disclosure Project, and the Principles for Responsible Investment (PRI); and has most recently committed to the Japan Stewardship Code.

Proxy voting and engagement are core components of our approach to ESG integration. The CGRI group ensures that our votes are aligned with our annually-updated RBC GAM Proxy Voting Guidelines, which communicate how we will vote on material corporate governance and ESG issues. In collaboration with the portfolio managers and analysts who make the investment decisions, the CGRI group also manages and executes direct ESG engagement with the companies in which PH&N- and RBC GAM-managed portfolios invest.

The CGRI group has been developing a more proactive engagement program to target specific companies for ESG engagements on issues deemed material to our investments and will likely include a focus on thematic issues, including climate-change related issues. We are committed to further enriching our understanding of climate-related risks and opportunities, and to developing more products that reflect our clients' values and environmental priorities. Beyond direct engagement with investee companies, our efforts will also continue to include collaboration with like-minded investors and organizations, such as the PRI, and we will continue to encourage companies to provide enhanced, standardized climate-related disclosure.

For more information on RBC GAM's corporate governance and responsible investment activities and publications, please visit [rbcgam.com/cgri](http://rbcgam.com/cgri)

## **Grosvenor Capital Management**

We view environmental, social and governance issues as key elements of investment return, volatility and risk mitigation. We believe the consideration of such issues is an important aspect of our fiduciary responsibility to clients.

As we identify, evaluate and approve investments across our broad alternatives platform, we consider ESG issues throughout the due diligence process. This promotes upfront awareness of, and internal discussions on, potential issues from the initial screening stage. We request that investment managers and management teams provide updated responsible investing-related information in our year-end questionnaire, and we monitor ESG compliance regularly.

For more information on Grosvenor's responsible investment activities and publications, please visit <https://www.gcmgrosvenor.com/impact-report/>

## Disclosure of annual holdings

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Mount Allison provides a publicly-available list of the underlying stock and bond holdings in the University's pooled funds. These endowment fund holdings are posted annually on the Financial Services financial reports page.

[https://www.mta.ca/Community/Administrative\\_departments/Financial\\_Services/Financial\\_reports/Endowment\\_Fund\\_Holdings/Endowment\\_Fund\\_Holdings/](https://www.mta.ca/Community/Administrative_departments/Financial_Services/Financial_reports/Endowment_Fund_Holdings/Endowment_Fund_Holdings/)

## Options for new donations

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A new investment option for donors who are contributing new funds was created in December 2017. This fund is designed to meet the needs of donors who desire a responsible investing option.

The Desjardins Societerra Growth Fund (<https://www.fondsdesjardins.com/funds/societerra/growth-portfolio/index.jsp>) utilizes a number of strategies to implement responsible investing. As a starting point, the fund selected applies a filter which automatically excludes the arms and tobacco sectors, for example. When evaluating investments, the fund manager then assesses industry and company-specific exposure to ESG risks and exposures and eliminates those that are non-compliant or significant laggards relative to their industry peers. Some refer to this as a 'best-of-sector' approach.

In addition, the fund seeks opportunistic investments in both the environmental or 'green' bond market and equities issued by companies providing solutions to environmental problems. Beyond the integration of ESG issues, the fund manager is an active owner, utilizing shareholder engagement and exercising their proxy voting rights to support changes in terms of company-specific ESG policies and practices.