



**2018-2019**

**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 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 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.

PRI signatories are required to report publicly on their responsible investment activities each year. 2019 was the first year Mount Allison completed the PRI's reporting framework and the report is available at [www.unpri.org](http://www.unpri.org). The University will use the first report as a basis for further improvements in responsible investment reporting. In addition, University staff attended professional development opportunities focused on the subject of responsible investment, such as NATOA, a conference concerning matters related to Truth and Reconciliation in an investment context.

## 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, 2019 along with their status as UNPRI signatory and details on their approach to responsible investing.

<b>Asset Class / Strategy</b>	<b>Firm</b>	<b>UNPRI Signatory</b>	<b>Further details on the firm’s approach to responsible investment</b>
<b>Fixed Income</b>	BlackRock	Yes	<a href="https://www.blackrock.com/institutions/en-us/literature/whitepaper/bii-sustainable-investing-bonds-november-2019.pdf">https://www.blackrock.com/institutions/en-us/literature/whitepaper/bii-sustainable-investing-bonds-november-2019.pdf</a>
<b>Canadian Equity</b>	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>
<b>Canadian Equity</b>	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>
<b>US Equity</b>	Commonfund	Yes	<a href="https://www.commonfund.org/investments/capabilities/responsible-investing/">https://www.commonfund.org/investments/capabilities/responsible-investing/</a>
<b>International Equity</b>	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>
<b>Global Equity Small Cap</b>	Dimensional Fund Advisors	Yes	<a href="https://us.dimensionalfund.com/about-us/corporate-governance">https://us.dimensionalfund.com/about-us/corporate-governance</a>
<b>Emerging Markets Equity</b>	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>
<b>Infrastructure</b>	Grosvenor Capital Management	Yes	<a href="https://www.gcmgrosvenor.com/responsible-investing/">https://www.gcmgrosvenor.com/responsible-investing/</a>
<b>Global Equity (Low-volatility)</b>	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>
<b>Hedge Fund</b>	Abbey Capital	No	
<b>Targeted Return Strategy</b>	Wellington Management	Yes	<a href="https://www.wellington.com/en/esg-integration/">https://www.wellington.com/en/esg-integration/</a>

## Spotlight on our investment managers' responsible investing activities

### **Schroders Investment Management**

At Schroders, responsible investment principles drive our investment decisions and the way we manage funds. We have been incorporating ESG considerations into our fundamental research and security selection process for over 20 years. Over this time the information and tools available to us, our resources, the depth of our expertise and our approach to integrating Responsible Investment principles has evolved, but our commitment has remained the same: to be active owners of the companies in which we invest and to reflect environmental, social and governance (ESG) factors as part of our overall investment process.

We recognize that ESG factors can have a material impact on a company's performance both in the short and long term, as well as the inherent risk of investing in a company, which is why they play a crucial role in enhancing our understanding of a company's fair value and ability to deliver long-term success. As active fundamental investors in emerging markets, we believe that relying on ESG ratings or quantitative screens risks oversimplifying ESG considerations. A more careful analysis can enable an understanding of the business model and management motivations, within the context of a company's operating environment. This is particularly relevant in emerging and frontier market investing, where disclosures may be reduced and regulations less stringent.

Our integration approach spans the breadth of the ownership lifecycle, from identifying trends and analyzing companies through ownership, engagement, voting and reporting. Engagement forms a core part of our approach to ESG. Companies play a critical role in societies and are heavily exposed to changes in those societies and the natural environment. By engaging with companies and their management we can improve our understanding of the issues they face and their approaches to managing them, helping us to protect and enhance the value of our investments. In 2018, our dedicated Sustainable Investment team undertook over 2,200 specialist ESG engagements with companies across 52 countries globally.

We also collaborate with peers in a number of industry groups, organizations and initiatives. We believe that sharing our knowledge and working with peers and policy makers will play a critical role in shaping a sustainable future and achieving long-term returns.

For more information on Schroders' responsible investment activities and publications, please visit [www.schroders.com/sustainability](http://www.schroders.com/sustainability)

## 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 underlying 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/societerra/societerra-growth/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.