



2019-2020

Responsible Investment Report

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Background

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 details 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)

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. The PRI assesses the responses of Mount Allison and other signatories, assigning a performance band (from A+ to E). In 2020, Mount Allison was awarded 'A' ratings by the PRI for its 'ESG Strategy & Governance' and Investment Manager Selection, Appointment & Monitoring approach.

The full report is available at www.unpri.org. To read more about the PRI's assessment methodology, visit <https://www.unpri.org/signatories/about-pri-assessment> The University uses the annual report as a basis for further improvements in responsible investment activities and reporting.

Mount Allison investment policies

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 is a list of our investment managers as of Sept. 30, 2020 along with their status as UNPRI signatory. The links provide further 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	https://www.blackrock.com/institutions/en-us/literature/whitepaper/bii-sustainable-investing-bonds-november-2019.pdf
Canadian Equity	Connor, Clark & Lunn	Yes	https://www.cclgroup.com/cclim/en/home/what-we-do/responsible-investing
Canadian Equity	Phillips, Hager & North	Yes	https://institutional.phn.com/our-solutions/esg/content/default.fs
US Equity	Commonfund	Yes	https://www.commonfund.org/investments/capabilities/responsible-investing/
International Equity	Fidelity Investments	Yes	https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/about-fidelity/ESG-StatementofPolicy.pdf
Global Equity Small Cap	Dimensional Fund Advisors	Yes	https://us.dimensional.com/about-us/investment-stewardship
Emerging Markets Equity	Schroders	Yes	https://www.schroders.com/en/strategic-capabilities/sustainability/
Infrastructure	Grosvenor Capital Management	Yes	https://www.gcmgrosvenor.com/responsible-investing/
Global Equity (Low-volatility)	TD Asset Management	Yes	https://www.tdaminstitutional.com/tmi/content/AU_CorpVision?language=en_CA
Hedge Fund	Abbey Capital	No	
Targeted Return Strategy	Wellington Management	Yes	https://www.wellington.com/en/esg-integration/

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

Connor, Clark & Lunn Investment Management

CC&L recognizes its responsibility as stewards of the assets entrusted to it by its clients and its leadership role in advocating for capital market integrity. Since inception of CC&L's business, through in-house research, management meetings, and proxy voting, CC&L's

investment teams have taken into account all factors – including ESG factors - that may have an influence on an investment’s performance.

ESG factors were integrated into CC&L’s quantitative model effective July 2020. This is a culmination of research efforts taken the last 5 years. In 2018, in conjunction with the CC&L ESG Committee, the Quantitative Equity Team undertook a project to review the quality of the available data and methodologies around measuring ESG risks. This was spurred by our view that ESG data coverage had increased and data quality had improved since our last review in 2015 and therefore, a further project was initiated to re-evaluate the potential benefit of using this data for CC&L’s investment processes. The data review was completed in 2018 and the evaluation of the impact on our model was completed in late 2019. The results from this project indicated an improvement in the data and showed a modest improvement in predictive risk forecasts. The team incorporated E, S, and G rankings as systematic risk factors, as well as predictors of stock-specific risk, in the quantitative investment process in July 2020.

CC&L adheres to several guiding principles which were most recently reviewed and reaffirmed in their entirety in 2018. Creating an environment that fosters diversity - recognizing that this leads to greater idea generation and better decision making - is one of these guiding principles.

In keeping with our commitment to our guiding principles, in September 2020 CC&L signed on to the Responsible Investment Association’s (RIA) Canadian Investor Statement on Diversity & Inclusion. The Statement acknowledges the existence of systemic racism and its impacts on Black and Indigenous communities and People of Colour in Canada and globally and asks Canadian public companies to endeavor to increase transparency, adopt policies and expand and disclose organizational efforts to address barriers to diversity and inclusion.

Fidelity Investments

Fidelity Investments formalized its ESG program in January of 2017. As part of the formal launch, Fidelity adopted an ESG Policy and amended proxy voting guidelines to formally evaluate and actively vote on Environmental and Social shareholder proposals. In addition, Fidelity has created an ESG team in its Asset Management division to further support the integration of ESG considerations into our investing practices.

Incorporating these ESG factors and research are part of the mosaic our portfolio managers and analysts use to evaluate their investment opportunities. Our analysts are empowered with the responsibility of assessing the importance and impact of material facts relevant to investee company operations. These analysts are typically assigned specific economic sectors. This alignment allows the analysts to build expertise on the specific ESG factors present in their sectors. Analysts commonly cover the same sector for many years, creating a substantial body of sector- and company-specific ESG knowledge.

Along with a fundamental rating, our research analysts are responsible for publishing a separate proprietary Fidelity ESG rating on companies. As part of this process we are making the evaluation of material issues and corresponding metrics at the industry level available to the analysts as a scorecard to facilitate engagement. Sustainability Accounting Standards Board (SASB) insights are being used as a foundation for building our score. We are also leveraging the industry expertise of our fundamental research team to evaluate and confirm

materiality and provide insight into weighting these material factors. Ratings will be managed by the individual analysts with input from the research analysts across other asset classes.

Fidelity pursues an active investment strategy through portfolio management decisions, voting on resolutions, and maintaining an ongoing dialogue with the management of the investee company. Our objective is to deliver investment performance to our clients and in order to do so we seek a long-term understanding of all aspects of the companies in which we invest. The intensive analysis which accompanies an initial investment continues throughout and beyond the life of the investment itself.

Fidelity's research and investment analysis is the centerpiece of our communication with companies and they undertake extensive quantitative and qualitative analysis of potential investments. Formal meetings involving both portfolio managers and analysts are frequently held with investee companies. These meetings focus on the drivers of long-term performance, although shorter term issues are also relevant in the context of validating that the longer-term investment thesis is still intact. In addition to financial and strategic matters, discussions will cover a wide range of related investment topics including, but not restricted to, corporate governance and business sustainability. ESG topics are frequently integrated into the question set for these meetings and facilitated by our fundamental analyst team. Often an ESG analyst will also participate in the meetings.

Disclosure of annual holdings

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.

Options for new donations

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](#) 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.

Next Up

A dozen prominent Canadian universities, including Mount Allison, are establishing a collaborative climate change investor engagement program that leverages their power as institutional investors to meaningfully address the drivers of climate change in their portfolios. Investor stewardship will help each university address climate change risks across the entire portfolio, and help demonstrate alignment with the Paris Agreement. Mount Allison staff hopes to be able to communicate more about this concept in the coming months.