



BOARD OF TRUSTEES Report

To: Board of Trustees	Date of Report: 2/7/2022
From: Investment Committee	Date of Investment Committee Approval: 2/16/2022
Subject: Final Report on Climate Change Action Task Force (CCATF) Recommendations	Date of Board Committee Meeting: 2/16/2022
Responsible Portfolio: Vice-Principal (Finance and Administration)	Date of Board Meeting: 3/4/2022

1.0 PURPOSE

For Approval For Discussion For Information

2.0 MOTION/DISCUSSION

That the Board of Trustees, on the recommendation of the Investment Committee, approve the proposed carbon reduction plan for the Pooled Endowment Fund and Pooled Investment Fund, with the objective to sustain, by the end of calendar 2030, a public equity portfolio (also including private equity and real assets where data are available) with at least 25% lower carbon emissions than the equities benchmark;

That the Board of Trustees, on the recommendation of the Investment Committee, approve the establishment of a Queen's Climate Action Allocation (QCAA) within the Pooled Endowment Fund comprised of investments across asset classes that are expected to outperform with the transition to a lower carbon economy, targeting a minimum allocation of 15% by the end of calendar 2030. Further, that Queen's not pursue the previously adopted recommendation to establish a program whereby donors can designate gifts in direct support of this allocation;

That the ongoing management and evolution of the carbon reduction plan and the QCAA be delegated to the Investment Committee, with the Investment Committee providing regular updates to the Board of Trustees (at least annually); and,

That the Board of Trustees, on the recommendation of the Investment Committee, authorize an application on behalf of Queen's to become a signatory to the United Nations-supported Principals for Responsible Investment (UNPRI).

3.0 EXECUTIVE SUMMARY

The Investment Committee is providing its final report on the implementation of the Board-approved recommendations (March 6, 2020) from the Climate Change Action Task Force (CCATF), which include commitments to measure and reduce the endowment's carbon footprint; establish a renewable/energy-transition allocation to which donors may contribute directly; and enhance investment transparency. These recommendations are consistent with the commitments expressed in the document entitled [Investing to Address Climate Change: A Charter for Canadian Universities](#) (also referred to as "The Charter"), to which Queen's was a founding signatory (officially announced on June 18, 2020).

The Investment Committee reported on its progress at the Board of Trustees' December 2021 meeting, while noting more work needed to be done on the following:

- Selecting a carbon measurement methodology and targets;
- Formalizing within the Statement of Investment Policies and Procedures (SIP&P) an energy transition allocation for the endowment, tentatively named the Queen's Climate Action Allocation (QCAA);
- Assessing the feasibility and implications of establishing a program that allows donors to contribute directly to the QCAA.

The committee is now ready to make recommendations on these items as follows:

- To measure and significantly reduce the carbon footprint (tons CO₂e per million dollars invested) of the Pooled Endowment Fund (PEF) and Pooled Investment Fund (PIF), with the objective to sustain, by the end of calendar 2030, a public equity portfolio (also including private equity and real assets where data are available) with at least **25% lower carbon emissions than the equities benchmark**, using Scope 1 and Scope 2 CO₂e emissions;
- By the end of calendar 2030, **to allocate at least 15% of the PEF to a formally established QCAA**, comprised of investments across asset classes that are expected to outperform with the transition to a lower carbon economy; and
- To **not pursue the previously proposed donor direction program** relating to the renewable/energy-transition allocation, or QCAA.
- The committee is also recommending Queen's become a signatory to the UNPRI.

Details are provided in the Analysis section. Related changes to the SIP&P are being brought forward for approval under separate cover.

4.0 STRATEGIC ALIGNMENT / COMPLIANCE

The Investment Committee's Responsible Investing activities support the University's sustainability initiatives.

4.1 EQUITY, DIVERSITY, INCLUSION, AND INDIGENIZATION

The Pooled Endowment Fund provides income for a wide range of beneficiary funds (e.g. bursaries and scholarships), including many that support initiatives related to equity, diversity, inclusion, and indigenization.

5.0 ENTERPRISE RISK ASSESSMENT

The Investment Committee believes that managing climate risk in the Investment Funds will generate better risk-adjusted returns over the long run.

6.0 ANALYSIS

In 2019, the Board of Trustees struck the CCATF to develop strategic recommendations for managing Queen's investments in alignment with sustainable development goals. CCATF recommendations were approved by the Board of Trustees at its March 2020 meeting. An Energy Transition Subcommittee (ETS) of the Investment Committee was established in the spring of 2020 to implement these recommendations.

Below are the CCATF recommendations, together with a summary of actions already implemented or currently recommended by the Investment Committee.

CCATF Recommendation #1 (from March 2020):

Queen's will engage the Institute for Sustainable Finance to:

- *survey existing and potentially research other appropriate measures of exposure to carbon emissions embedded in its portfolios, recognizing that such measures may vary across sectors and through time;*
- *determine the most appropriate measures for Queen's portfolios;*
- *report on such measures in its portfolios; and*
- *set reasonable objectives to reduce the portfolios' carbon intensity, recognizing the Board of Trustees' fiduciary obligations.*

Investment Committee Recommendation: Proposed Carbon Reduction Plan for Investments

- The Investment Committee's proposal is for Queen's to measure and significantly reduce the **carbon footprint** (tons CO₂e per million dollars invested) of the PEF and PIF with the objective to sustain, by the end of calendar 2030, a public equity portfolio (also including private equity and real assets where data are available) with at least **25% lower carbon emissions than the equities benchmark**, using Scope 1 and Scope 2 CO₂e emissions.
- Investment Services will provide an annual update report on its [webpage](#), with the first report scheduled for the first half of 2023.

Rationale:

- The ETS and the Investment Committee have engaged with the Institute for Sustainable Finance (ISF) on this topic, conducted an extensive environmental scan to ascertain best practice, and hired MSCI as carbon data provider.
- The Investment Committee's approach considered the following principles:
 - Measures
 - Attempts to capture climate-related risks that could affect investment performance
 - Good data availability, used by other institutions, relatively simple

- Deals practically with technical issues (e.g. double counting, measurement error, different asset classes)
- Targets and Timelines
 - Should be reasonable and meaningful
 - Aligned with Canada's international commitments, consistent with a sustainable future
 - Consistent with the Board's fiduciary duty to Queen's
- An environmental scan of Canadian university peers revealed that the proposed approach to carbon measurement (i.e. Scope 1 and Scope 2 carbon emissions relative to the amount invested) has been commonly adopted, although some universities have preferred using slightly different metrics. For Queen's the benefits of this measurement methodology are:
 - Commonly adopted, and thus comparable to peers
 - Intuitive
 - Scalable due to being based on the investor's ownership share
- The proposed benchmark-relative reduction targeting (as opposed to setting an absolute target relative to a base year) is less common in Canada, although it is broadly consistent in concept with the approach taken by McGill. The Investment Committee favours this approach for the following reasons:
 - It is ambitious and meaningful
 - As the current portfolio footprint is slightly above benchmark, current estimates are that a 28% absolute reduction in the Pooled Endowment Fund carbon footprint will be required to achieve a level that is 25% below the *current level* of the equities benchmark.
 - Setting a target of 25% lower emissions than a widely accepted global benchmark is much more aggressive than setting a 25% absolute reduction target relative to a base year, as the economy and individual companies are broadly expected to transition toward carbon-neutrality over time in order to meet climate commitments. For example, if companies on aggregate were to cut net emissions by 33%, achieving a carbon target of 25% lower than the benchmark would be equivalent to a 50% absolute reduction target. Annual reporting will clearly show both relative and absolute reductions over time.
 - Carbon reduction in the portfolio will be achieved through QCAA commitments, as well as through investment manager engagement with portfolio companies to reduce their carbon output.
 - It is aligned with the Board's fiduciary duty
 - With the reduction target set relative to the benchmark, Queen's portfolio exposure to carbon will be lower than, and reduced ahead of, the broader market, which enhances returns and reduces risk, assuming the price of carbon is not fully reflected in market prices – a reasonable assumption.
 - It is aligned with sustainability objectives
 - If investors were to adopt this approach broadly, companies with greater carbon exposure would face a higher cost of capital. This encourages companies to lower their emissions.
- It is proposed to use Scope 1 and Scope 2 CO₂e emissions. This is consistent with most Canadian university peers.

CCATF Recommendation #2 (from March 2020):

Queen's will:

- *explore investments that will outperform with the transition to a lower carbon economy;*
- *allocate capital from its endowment to such investments, consistent with the Board of Trustees' fiduciary obligations; and*
- *allow donors to allocate capital directly to such investments, within the endowment, increasing the overall investment in the transition theme, with all endowment units receiving the same payout.*

Investment Committee recommendation: QCAA

- It is proposed to formally establish, track, and report on an energy-transition allocation within the PEF to be named the Queen's Climate Action Allocation (QCAA), and that the QCAA be formally established within the SIP&P. Further, it is proposed to **allocate at least 15% of the PEF to the QCAA by the end of calendar 2030.**
- The QCAA is proposed to comprise investments with significantly lower carbon emissions than the equities benchmark and/or have a credible plan for achieving net zero emissions in accordance with timelines set out by the Canadian government (e.g. the Paris Agreement). These investments can be found in any asset class and may include, but are not limited to, renewable energy; low carbon funds; carbon capture and other sustainability-driven technologies; and sustainable real estate.
- Investment Services will provide information on the QCAA on its webpage.

QCAA rationale:

- The establishment of a dedicated energy-transition allocation such as the QCAA is anticipated to enhance the risk-return profile of the PEF, as it will include investments that are expected to outperform with the transition to a lower carbon economy.
- The proposed target allocation of 15% by the end of calendar 2030 is considered achievable given the nature of the investments the Investment Committee wishes to make to achieve the commitments set out in the proposed carbon reduction plan for investments. QCAA investments will be critical for achieving these commitments.
- Given that QCAA-eligible investments may be found in any asset class, the asset allocation itself, as reflected in the Strategic Policy Asset Mix, will not be affected. (For example, the PEF's investment in Pattern Energy, as detailed below, will be considered a QCAA investment, while at the same time continuing to be classified as part of the Real Assets allocation per the Strategic Policy Asset Mix.)

Action taken to date:

- The Investment Committee demonstrated a major commitment to renewable energy with the PEF's December 2020 investment of US\$30 million (approximately 3.2% of PEF assets) in Pattern Energy, a private wind and solar company with operations in North America and Japan. This investment, which was made alongside Canada Pension Plan Investment Board

(CPPIB) in a syndicated deal, is consistent with the CCATF recommendation to allocate capital to investments that will outperform with the transition to a lower carbon economy.

- The allocation to Pattern Energy is the first of the dedicated QCAA investments within the PEF.

Investment Committee recommendation: Donor direction

- After a thorough feasibility assessment, the Investment Committee is recommending **not** pursuing the previously proposed program to “allow donors to allocate capital directly to such investments, within the endowment, increasing the overall investment in the transition theme, with all endowment units receiving the same payout” (also referred to as the “donor direction” program).

Donor direction rationale:

- The Investment Committee recommends that the University not proceed with the donor direction option since this initiative is not likely to increase the amount of overall donations to Queen’s and increases the risk of requests for alternate donor directed strategies.
- The recommendation not to proceed is based on extensive analysis including donor input.
- In support of the previously approved donor direction initiative, Queen’s engaged external counsel to understand the conditions under which such a donor allocation could be possible without jeopardizing the charitable status of the university. In summary, counsel advised that any donations to the PEF must be made in accordance with the SIP&P.
- With this guidance in mind, staff set out to develop a clear and compelling option to present to donors to articulate the option to allocate their gift to increase the proposed QCAA, resulting in a one-page marketing brief.
- In Fall of 2021 Advancement engaged Innovative Research Group to conduct interviews with donors using the marketing brief. In depth interviews were held with 27 major donors in October 2021. The primary purpose of the interviews was to test the marketing brief developed for donors to explain the proposed choice to direct their funds to support the QCAA and receive feedback as to whether the option was clear and compelling.
- The consultant’s report indicated that most major donors have a positive or neutral impression of the QCAA but were largely uninterested in having the opportunity to direct donations to the QCAA. Importantly, multiple donors voiced support for establishing the QCAA. Based on the in-depth interviews performed, establishing a donor direction option to increase the QCAA will not increase the likelihood to give to the University in the future. In addition, it was pointed out that this initiative could result in donors requesting alternate donor directed allocations.
- The Investment Committee has ascertained that the proposed target allocation of 15% to the QCAA is achievable without any special donor direction program. Further, even a relatively successful donor direction program would be unlikely to result in a material increase to what is already anticipated to be a ~\$225 million allocation within the PEF.
- Experience at other universities showed very limited uptake by donors for similar programs, resulting in small funds with higher costs.
- A target allocation for the QCAA embedded within the SIP&P, as proposed above, demonstrates meaningful action and commitment to responsible investing, while reducing

the potential risks and additional administration associated with establishing the donor direction option.

CCATF Recommendation #3 (from March 2020):

In addition to existing disclosures, Queen's will:

- *provide a new Responsible Investing tab within the Investment Services webpage;*
- *provide links to all publicly available investment manager ESG information, including UNPRI reports;*
- *amend the current manager ESG questionnaire and make future ESG annual reports publicly available on the website; and*
- *provide information on all renewable energy or other sustainable investments.*

Action taken to date:

- The Investment Services [webpage](#) was completely redesigned in 2020, with particular emphasis on the Responsible Investing tab. As a result, the content, look, and feel of the webpage have been considerably improved.
- ESG questionnaires, which are completed annually by each external investment manager, are now posted publicly on Investment Services' webpage. This initiative, along with the continued practice of maintaining a list of detailed holdings information on the webpage, represents a rare level of disclosure and positions Queen's as a leader in ESG transparency.
- In addition, links are provided to each external investment manager's UNPRI reporting, where applicable.
- The ESG questionnaire was significantly overhauled in 2020 with input from the ETS and in consultation with the student group Queen's Backing Action on Climate Change (QBACC).

Investment Committee recommendation: UNPRI

- The Investment Committee is recommending that **Queen's become a signatory to the [UNPRI](#).**
- [Annual public reporting](#) is required of all signatories. The first year of reporting will be treated as non-public and serves as a "trial run" to help identify and address gaps. For Queen's, this trial run will occur in 2023, with the first public report produced in 2024.

Rationale:

- Queen's Responsible Investing Policy is already informally based on the best practices established by the UNPRI, a highly respected coalition with rigorous reporting standards. As such, becoming a formal signatory will largely reinforce current investment practices, while encouraging constant improvement in areas where there may be gaps.
- With Queen's already incorporating many of the recommended practices, it is felt that the reporting timeline provides sufficient opportunity to prepare for releasing a public report.
- Becoming a UNPRI signatory sends a strong message to stakeholders that Queen's takes responsible investing extremely seriously. Further, it promotes solidarity with peer

universities, as the majority of Charter signatories have either already signed or plan to become signatories to the UNPRI.

7.0 FINANCIAL IMPLICATIONS

The Investment Committee believes that effective management of ESG factors can improve the investment performance of the Queen's Investment Funds.

8.0 COMMUNICATIONS STRATEGY

The Office of the VPFA is working closely with Integrated Communications to develop a communications plan to ensure university stakeholders are informed of approved recommendations.

9.0 INPUT FROM OTHER SOURCES

The Institute for Sustainable Finance at the Smith School of Business provided background research on best practices in responsible investing and carbon measurement, which was presented to the Investment Committee at its September 17, 2020 meeting.

External investment managers who manage assets on behalf of the Queen's Investment Funds responded to a questionnaire on ESG activities.

QBACC was consulted on the 2020 update of the ESG questionnaire, and has been briefed periodically on the committee's progress with carbon measurement.

University Relations was consulted on the webpage redesign and communications plan.

Queen's Director, Investments participates as a member of the Climate Charter Technical Committee, comprised of representatives from each of the university signatories to the document entitled [Investing to Address Climate Change: A Charter for Canadian Universities](#) (also referred to as "The Charter"), to which Queen's was a founding signatory (officially announced on June 18, 2020). This committee compares approaches and shares experiences related to the implementation of Charter commitments.

MSCI has been engaged as carbon data provider.

ATTACHMENTS / LINKS

1. [MSCI – Carbon Footprinting 101](#)
2. [Investment Services webpage](#)
3. [Responsible Investing Policy](#)
4. [Responsible Investing Procedure #1](#)
5. [Responsible Investing Procedure #2](#)
6. [United Nations-supported Principles for Responsible Investment \(UNPRI\)](#)