

Report to the Principal from Review Committee for Responsible Investing

Response to the Special Request Submitted
May 2024

January 16, 2025



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Land Acknowledgement

Queen's University is situated on traditional Anishinaabe and Haudenosaunee Territory. To acknowledge this traditional territory is to recognize its longer history, one predating the establishment of the earliest European colonies. It is also to acknowledge this territory's significance for the Indigenous peoples who lived, and continue to live, upon it – people whose practices and spiritualities were tied to the land and continue to develop in relationship to the territory and its other inhabitants today. The Kingston Indigenous community continues to reflect the area's Anishinaabek and Haudenosaunee roots. There is also a significant Métis community and there are First Peoples from other Nations across Turtle Island present here today.

Executive Summary

The Committee recommends against divestment of Queen's pooled endowment and investment funds from companies conducting business in or with the State of Israel and against putting in place a negative screening process for future investments.

One Committee member dissented from this recommendation.

The Committee engaged in thorough consultation with the broad Queen's community¹ and carefully considered the arguments presented that addressed Responsible Investing. In reviewing the request, the Committee was mindful that its sole role was to evaluate the request based on the factors in the [Responsible Investing Policy](#). Based on its review, the Committee could not conclude that divestment or negative screening of companies conducting business in or with the State of Israel would be consistent with the policy. It determined that the requested divestment and negative screening would be contrary to the Investment Committee and Board of Trustees' fiduciary obligations as it would materially and adversely affect Queen's investment portfolio.

Given Queen's status as a small institutional investor, the Committee did not find evidence that divestment and/or negative screening would contribute to a change in behavior by others. As such, divestment and negative screening would only be a political or symbolic statement. Such a statement would violate Queen's policy of institutional neutrality.

The Committee has also provided additional recommendations and commented on ancillary matters based on its deliberations and the concerns that emerged during the consultation process.

¹ Included students, staff, faculty, retirees, alumni, benefactors, parents, the Kingston community, and third parties with connections to Queen's.

Glossary

Divestment: full sale of investments or securities held in a portfolio.

Endowment: an endowment is a financial gift to a non-profit organization to be used for specific purpose(s) designated in the gift's terms of reference. An endowment fund is similar to a trust fund in that there are restrictions on how the amounts received by the fund are to be spent. The amount available to spend from an endowment fund is comprised of investment income earned on capital contributions and is restricted.

External investment managers: third-party managers hired by Queen's to manage the investing of the University's funds.

Fiduciary responsibilities: legal obligation that includes the duties of prudence and loyalty. Fiduciaries must act honestly, in good faith, in the best interests of the beneficiaries, and ensure that all beneficiaries are treated with an even hand. In an investment context:

- The duty of prudence requires that investment decisions take into account appropriate asset-liability factors, the specific nature of the investment under consideration, and the investment at large; and
- The duty of loyalty requires that fiduciaries act honestly, in good faith, in the best financial interests of the beneficiaries, and that all beneficiaries are treated with an even hand. In the case of trusts expected to continue for an extended period, the best financial interest of the beneficiaries should be assessed over the long term.

Negative screening: establishment of filters to exclude making investments with certain characteristics, such as affiliation with a specific business sector, industry, or country.

PEF: Pooled Endowment Fund – see Appendix 1

PIF: Pooled Investment Fund – see Appendix 2

Pooled funds: pooled fund vehicles are similar to a mutual fund, where funds are commingled (i.e., mixed) with other investors under a common set of guidelines and restrictions.

Responsible Investing: investment approaches that take Environmental, Social, and Governance (“ESG”) factors into consideration. Consistent with the Queen's [Responsible Investing Policy](#) and the United Nations-supported Principles for Responsible Investment (UNPRI), it is based solely on risk and return considerations and the belief that such factors can be material to shareholder value across industries and through time.

Separate account: securities are owned directly through a customized investment mandate.

Background

The [Responsible Investing Policy](#) and its corresponding procedures were approved by the Board of Trustees in May 2017 based on recommendations from the Principal's Advisory Committee on Divestment: Fossil Fuels.² The policy is intended to achieve the overall goal of prudent investments while also providing an avenue for members of the Queen's community to make special requests. Special requests are an opportunity to make submissions and presentations on Responsible Investing. [Procedure 2 – Special Requests](#) sets out the process under which a special request must be reviewed. This is the first special request made under the [Responsible Investing Policy](#).

Initiating Request

The Principal's Review Committee for Responsible Investing ("Committee") was established by Principal and Vice-Chancellor Patrick Deane in accordance with the University's [Responsible Investing Policy](#) to consider a special request submitted by a campus group, Queen's University Apartheid Divest (QUAD) Coalition. QUAD submitted a 33-page report accompanied by a petition signed by members of the Queen's community in May 2024. The petition was reviewed by the University Secretariat who verified that the signatures met the requirements set out in [Procedure 2 – Special Requests](#).³

Committee Mandate

The Committee's mandate is to review the submission from QUAD and provide a written response for the Principal detailing the Committee's recommendation(s). The Committee interpreted the request as asking Queen's to divest its pooled endowment and investment funds from companies conducting business in or with the State of Israel and to put in place a screening process for such future investments.⁴ The Committee's task was to conduct a comprehensive assessment of QUAD's request for divestment and negative screening, in accordance with the [Responsible Investing Policy](#), guided by

² Principal Daniel Woolf formed an *ad hoc* Principal Advisory Committee on Divestment in December 2014 in response to a request from a student group that Queen's divest from fossil fuels. The recommendations that influenced the Responsible Investing Policy were in the Advisory Committee's October 2015 final report.

³ The [Responsible Investing Policy, Procedure 2 – Special Requests](#) requires the submission be accompanied by a petition of at least 200 individual signatures, with a minimum of 20 signatures from at least three of the five constituencies of the University community defined in the policy. The five constituencies for the purposes of the policy are: faculty, staff, students, alumni, and retirees.

⁴ The Committee interpreted the request to be directed at "companies conducting business in or with the State of Israel" rather than using QUAD's language of "companies that facilitate the illegal occupation of Occupied Palestinian Territories (OPT) under international law" so that the wording does not presuppose any legal conclusions or the Committee's outcome. When QUAD representatives met with the Committee Chair in September 2024, they expressed some concern with the rewording of their request. The Chair invited QUAD to submit a supplemental brief on the subject outlining their reasoning. No brief was received.

the fiduciary responsibilities of the Board of Trustees and Investment Committee, the consideration of Environmental, Social, and Governance (ESG) factors, and all other factors defined in the policy.⁵

QUAD's request for academic boycotts was beyond the scope of the Committee's mandate; the Committee's mandate was to review only the divestment-related requests. Although QUAD requested divestiture and negative screening for Queen's Pooled Endowment Fund (PEF), the Committee expanded the request's scope to also include Queen's Pooled Investment Fund (PIF). Given that Queen's investment strategies for both PEF and PIF are largely similar and to give effect to QUAD's underlying goal that all of Queen's investment funds be reviewed, the Committee decided to expand the scope of the request to both funds.

The Committee is advisory to the Principal. The Principal has not been involved in the Committee's work or deliberations. All the Committee's deliberations have been kept confidential, including from the Principal and University administration,⁶ as well as the non-Committee members of the Board of Trustees.

The Committee was committed to transparency in its process, undertaking broad consultation with the Queen's community, maintaining confidentiality, and ensuring safety for all participants. The Office of the Secretariat and Legal Counsel maintained a [webpage](#) with detailed information about the Committee's terms of reference, membership, and the consultation process. Updates about the progress of the Committee were provided to the Queen's community through publicly available articles in *Queen's Gazette*.

Throughout its work, the Committee engaged in considered and reasoned deliberation of the request. This report represents the final component of

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⁵ The factors defined in the policy are: consistency with existing University policies or objectives; feasibility, as in the amount of resources involved to address the issues raised in the request; materiality of the request to the overall investment portfolios; and whether the issue is better addressed using other levers available to the University. The list is non-exhaustive.

⁶ Non-voting advisory members of the Committee included individuals within the University administration. They attended some confidential meetings but were not part of the Committee's decision-making and were subject to the same confidentiality requirements as other Committee members.

that process. The Committee worked hard to facilitate comprehensive engagement by providing opportunities for consultation with all interested parties. All Committee members took great care to listen to all views and understand the impact of decisions on those involved.

Committee Composition

Members of the Review Committee for Responsible Investing were appointed by the Principal in consultation with the Board Chair, in accordance with the [Responsible Investing Policy](#).

Table One: Committee Membership

Chancellor Emeritus Jim Leech	Committee Chair
Todd Mattina	Chair, Investment Committee, Board of Trustees
Don Raymond	Chair Emeritus, Board of Trustees and Investment Committee member
Bob Watts ⁷	Governance & Nominating Committee, Board of Trustees and Adjunct Professor, School of Policy Studies
Vicki Remenda	Faculty Trustee
Nancy Evans	Staff Trustee
Rector Niki Boytchuk-Hale	Rector and Student Trustee
Jonathan Rose	Professor and Head, Department of Political Studies
Lynne-Marie Postovit	Professor and Head, Biomedical and Molecular Sciences ⁸

Table Two: Non-Voting Advisors

Michael Fraser	Vice-Principal (University Relations)
Donna Janiec	Vice-Principal (Finance and Administration)
Heather Woermke	Associate Vice-Principal (Finance and Administration)
Brian O'Neill	Investment Services
Rebecca Coupland	University Secretary

All members and advisors of the Committee signed a Confidential Undertaking and Queen's University Board of Trustees Code of Conduct that outlined their responsibilities and obligations related to confidentiality, collegiality, and conflicts of interest. As part of that undertaking, each person agreed to adhere to and promote Queen's core values of truth, responsibility, respect, freedom, and well-being.

⁷ In October 2024, Mr. Watts resigned from the Board of Trustees and this Committee for unrelated personal reasons; accordingly, the recommendations of this Report do not contain his input post his resignation date.

⁸ In January 2025, Dr. Postovit was appointed as Vice-Provost (Academic Affairs).

All members of the Committee were provided with access to on-line training with respect to [Unconscious Bias](#) and [Power Privilege and Bias](#), as recommended by the Queen's Human Rights and Equity Office (HREO).

Timeline

The timeline and progress of the Committee was shaped by two competing goals: facilitating comprehensive consultations with all interested parties and the desire for expeditious recommendations on the matter.

To ensure the Committee had a robust and accurate understanding of all relevant information, it engaged the expertise of the non-voting advisors and an outside law firm prior to public consultation. The law firm delivered a presentation on fiduciary responsibilities. Queen's Investment Services briefed the Committee on Queen's investments, including: the sources/uses of investment funds; how the funds are managed; actual and target investment performance; cost/risk/return implications of divestment and negative screening; and how Responsible Investing is currently integrated into Queen's investment decisions. The Committee also informed itself on: divestment and negative screening; the history of divestment at Queen's; and the [Chicago Principles](#) and the [Kalvin Report](#). In November 2024, Stephanie Simpson, Vice-Principal (Culture, Equity, and Inclusion) met with the Committee to discuss concerns about the campus climate and to communicate how the administration was addressing certain issues raised during the consultation process.

At the Committee's request, the Chair met with representatives of QUAD and its faculty advisors in August 2024 to advise them of the Committee's consultation process and estimated timeline. On September 5, 2024, the [Queen's Gazette](#) announced that the Committee was inviting public consultation. The Committee accepted written presentations until September 30 and accepted requests for in-person presentations to the Committee until September 15. In-person consultations were held over four days in mid-October.⁹

During this information gathering phase (June to early November) the Committee met nine times (not including in-person presentation days). Meetings were scheduled for two hours in length and regularly

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⁹ In-person presentations were held October 10, 11, 21, and 23.

included in-camera sessions without University administration present in order to foster free dialogue with respect to the Committee's progress. All Committee discussions were conducted in confidence.

Consultation Process

The Committee was determined to conduct comprehensive consultation to ensure the full range of perspectives and views from across the broad Queen's community were considered. It sought input from students, staff, faculty, retirees, alumni, benefactors, parents, the Kingston community, and third parties with connections to Queen's.

Given the emotions, deep convictions, and impact that the current war in the Middle East is having on members of the Queen's community, the Committee felt it was important to be empathetic to all and not place barriers to participation in the consultation process. All those with interest or expertise were invited to submit views or evidence that might inform the Committee's deliberations.

"...sought input from students, staff, faculty, retirees, alumni, benefactors, parents, the Kingston community, and third parties with connections to Queen's."

The Committee requested the views of interested parties on the following questions:

1. Is it appropriate for the university to divest its pooled endowment and investment funds from the 85 companies specifically listed in the special request for conducting business in or with the State of Israel?
2. Should the university adopt a negative screening process that would potentially preclude future investments based on the business activities in or with the State of Israel?

Both written submissions and requests for an opportunity to make in-person presentations were solicited. All written and oral submissions received by the Committee were reviewed and carefully considered. No submissions received by the Committee were or will be shared publicly.¹⁰ The Committee assessed all submissions against the criteria detailed in the [Responsible Investing Policy](#), including considerations relevant to the cost to implement and impact on the risk and return profile of the University's investment portfolios.

¹⁰ Any submitter was free to make their presentation available to the public. For instance, the Committee did not post the original QUAD submission publicly, but QUAD chose to do so.

Table Three: Written and Oral Submissions to the Committee

Constituency	Number of Signatories to Written Submissions	Number of In-Person Presentations
Student	175	16
Staff	14	2
Faculty	42	11
Alumni	175	8
Other ¹¹	156	7
Total	562	44

Written Submissions

The Committee received 328 written presentations that represented the views of 562 people. Many in-person presenters also submitted a written presentation.

Written presentations could be submitted by webpage portal or email. There were no limits to the word or page length of the presentations or any appendices. Those participating were advised that anonymous written or oral submissions would not be considered.¹²

In-Person Presentations

The Committee received 71 unique requests for in-person consultations. Everyone who requested an in-person consultation meeting was offered one. Where an individual requested to meet twice, once on behalf of themselves and once on behalf of an organization, they were only offered a single consultation slot. Twenty-seven people declined the invitation for an in-person consultation meeting.¹³

“The Committee received 328 written presentations that represented the views of 562 people.”

¹¹ Includes: students, faculty, alumni, and staff who did not self-identify; and parents, retirees, benefactors, Kingston community members and on/off campus organizations.

¹² No anonymous written or oral submissions were received.

¹³ Includes 15 people who did not respond by the deadline of October 3, 2024, after having been sent three successive emails.

Forty-four consultation meetings were held over four days in mid-October. All sessions were held in person with only the presenter and Committee members in attendance.¹⁴ Presenters were allotted 25 minutes for their presentation, including 10 – 15 minutes for the Committee's questions.

“Forty-four consultation meetings were held over four days in mid-October.”

Consultation Themes

The Committee would like to thank all presenters for their considered submissions and presentations on this very emotional and divisive issue.

The submissions and presentations considered the posed questions through a wide range of lenses including but not limited to: legality; morality; population and health impacts; geopolitical and historical factors; racism and marginalization; university values; campus and community dynamics; and more.

Some presenters also shared their own personal experiences and/or reactions to events and the experiences of family members and friends, including stories about the impact of the conflict on people on campus, in Kingston, and in Israel, the West Bank and Gaza.

Although not directly addressing the question of divestment, the Committee felt it was important to understand the human dimension.

Some submissions and presentations expressed frustration about the Committee process. Some felt it was insulting for Queen's to consider this request at all, while others questioned the need for a Committee review process as they felt that the case for divestment was obvious. As the special request was made under the Queen's [Responsible Investing Policy](#), Queen's (and by extension, the Committee) was obliged to consider the request in accordance with the policy and its procedures.

Most submissions and presentations were advocating strongly either in favour or against divestment and negative screens. The arguments were clearly deeply felt. Across the set of submissions and presentations, diametrically opposite points of view and arguments were presented. There was no 'middle ground' recommendation presented that might reconcile these opposing views.

¹⁴ Presenters were required to attend in person and were allowed a support person to attend with them. Due to the significant time committed to the in-person presentations (44 sessions over four days) and the facts that the in-person sessions had to be scheduled before all Committee members were aware of any conflicting employment, teaching or class commitments and that not all Committee members reside in Kingston, the Committee decided that the Chair must attend all sessions in person, Committee members were permitted to attend remotely, and at least a majority of Committee members must be present for each presentation. Members who were unable to attend some presentations were provided with information and the handouts from those presentations.

There was little discussion about the financial impact of potential divestment and negative screens on the risks or returns of the Queen's investment portfolio. Although a few presenters did consider how risks to the environment or humanity may impact investments, many suggested that the impact on costs and investment performance was not a relevant consideration due to what they viewed as a moral imperative. Most presenters did not directly or comprehensively address the factors set out in the [Responsible Investing Policy](#) upon which the Committee's decision must be based. Those who addressed the divestment question directly argued that Queen's divestment from Israel would be a political or symbolic statement rather than an action that would directly change behaviour; although the presenters diverged on how a decision to divest would be interpreted.

Several submissions and presentations suggested expanding the pool of companies that should be divested or screened out to include other businesses to which they object (e.g., carbon intensive or weapons manufacturing), even if they are legal businesses carrying out legal activities, and other nation states with whose policies they disagree. Each suggestion was different from the last, demonstrating the subjective nature of any assessment and the lack of consensus generally and within the Queen's community.

Multiple presentations and submissions spoke to the allocation of tuition money to Queen's investment funds. The Committee wants to clarify that tuition fees are not invested in the PEF and PIF. They are used to support University operations in the year in which they are paid.

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Queen's Investment Funds

Queen's is responsible for several distinct investment funds: the Short-Term Fund, Sinking Fund, Pooled Endowment Fund (PEF), and Pooled Investment Fund (PIF), with an aggregate value of \$ 2.860 billion as of September 30, 2024. For the purposes of this report, the funds that are in scope are the PEF (\$1.718 billion) and PIF (\$478 million).

The PEF comprises funds that have been donated to the University and designated to support the University's mission in perpetuity. The University withdraws funds from the income earned within the PEF annually to fund student scholarships and bursaries, academic chairs, book funds, lectureships, as well as a diverse range of university programs in accordance with donor wishes. However, the University is limited in how it can use the PEF; use of any endowment funds must align with the terms of reference provided by donors.

The PIF is a much smaller fund that comprises expendable cash balances (some of which are externally restricted) that are not expected to be disbursed within the next three years. The balances in the PIF are not required in the near term so they are invested to maximize medium-term returns. With some exceptions, the capital of this fund is expendable.

A sustained decrease in the PEF's returns would have significant negative impacts on student experience and academic programming.¹⁵ Any decrease in the PIF's returns would also negatively impact the University.

Queen's has the 5th largest university endowment (PEF) in Canada. Among universities with 5,000 or more full time students, Queen's has the 2nd highest endowment funds per full-time student in Canada and highest in Ontario.¹⁶ Queen's has consistently realized returns above the median of like universities.¹⁷

“A sustained decrease in the PEF's returns would have significant negative impacts on student experience and academic programming.”

¹⁵ Based on the current PEF, a 1% decrease in investment returns would reduce funds available for student scholarships and bursaries, book funds, lectureships, etc., by \$17 million per annum (prior to compounding).

¹⁶ Queen's [2024 Annual Endowment Report](#), citing 2023 [CAUBO](#) Investment Survey (>5000 students).

¹⁷ 2023 [CAUBO](#) Investment Survey (>5000 students).

The Investment Committee has established the investment objective for PEF as maintaining a prudent disbursement rate ¹⁸ while preserving the after-inflation value of the fund¹⁹. In order to achieve this goal, the PEF must invest in assets that have uncertain returns. Risk is managed by diversifying geographically, across asset classes, and within each asset class. Queen's has exceeded its targeted return over the past 5, 10, 15 and 20-year periods.

In 2023-24 the PEF disbursed \$60 million for student aid, academic chairs and other faculty initiatives. Queen's depends on this income from PEF to fund programs that differentiate itself from other universities.

Queen's Investment Governance and Oversight

One of the primary duties of the Board of Trustees is to safeguard the assets of the institution, including through the management of its investment funds. While the Board has the overall responsibility for the management of investment funds of the University, the Investment Committee supports and enhances their capacity to do so. Together, the Board and Investment Committee oversee the financial health, administration, and governance of Queen's investments.

Investment Committee

The Investment Committee is responsible for the Short-Term Fund, Sinking Fund, Pooled Endowment Fund (PEF), and Pooled Investment Fund (PIF). For the purposes of this report, the funds that are in scope are the PEF and PIF. The Investment Committee is supported by Queen's Investment Services Office, which manages the day-to-day investment operations; assists in developing policy recommendations; implements Investment Committee directives; confirms policy compliance; and conducts investment research and analytics.

“Queen's has exceeded its targeted return over the past 5, 10, 15 and 20-year periods.”

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¹⁸ The current annual disbursement rate is based on a spending formula with a long-term spending rate that has been set at 4%.

¹⁹ Based on an assumed 2% annual inflation rate and the current investment expense levels, PEF and PIF must earn at least 6.4% annually to meet this objective.

External Investment Managers

Queen's does not select individual securities in which to invest. As a relatively small investor, such direct investing would be cost prohibitive.

Instead, the Investment Committee allocates portions of PEF and PIF assets to selected external investment managers with different areas of expertise. This is achieved through either a pooled fund vehicle or a separate account. Almost all Queen's investments are in pooled funds for two main reasons:

- Pooled funds are more practical and cost effective because of lower costs related to administration and management fees compared to separate accounts, and
- Separate accounts often have minimum account balance requirements that exceed Queen's capacity.

In other words, for many investment strategies, PEF and PIF are not large enough to absorb the increased cost and operational and administrative complexity of opening separate accounts without significantly reducing net investment returns.

Finally, pooled fund investors do not have discretion over the investment decisions made within the pooled fund. Therefore should Queen's determine to divest any security contained in a pooled fund, then it must sell its entire investment in the pooled fund.

Fiduciary Responsibilities

Fiduciary duty is a legal duty that imposes significant legal obligations on people with those obligations (fiduciaries). Both the Board of Trustees and Investment Committee are fiduciaries of the University and the University community.²⁰ As such, they are legally required to act in the best interests of the University as a whole, and not as representatives of any one constituency. The Committee recognizes that the Board has fiduciary duties beyond the [Responsible Investing Policy](#), but the Committee's recommendation considers fiduciary responsibilities only in an investment context. Investment decisions made by the Board must be made in the best interest of the University over the long term, taking into account appropriate institution-specific factors, the specific nature of the investment under consideration, the investment portfolio at large,

“...a fiduciary-related reason to divest or reduce holdings in a particular company is that the Board believes that a particular ESG factor will reduce expected returns and/or increase risk.”

²⁰ See [By-laws of the Board of Trustees of Queen's University at Kingston, By-Law No. 1 - Composition, election, and term of the Board of Trustees](#); [Queen's Investment Funds - Statement of Investment Policies and Procedures](#); and [Responsible Investing Policy](#).

and the financial implications of the decision. For example, a fiduciary-related reason to divest or reduce holdings in a particular company is that the Board believes that a particular ESG factor will reduce expected returns and/or increase risk.

The Committee is required to consider fiduciary obligations when making recommendations.

Responsible Investing & UNPRI Principles

Queen's defines Responsible Investing as investment approaches that take Environmental, Social, and Governance (ESG) factors into consideration when evaluating an investment. It is based on the belief that such factors can be material to shareholder value across industries and through time. Where an ESG factor is directly relevant to the financial performance (risk and return) of an investment, it requires proper analysis and consideration. While there is a considerable body of knowledge and consistent practice around environmental and governance criteria, there is less consensus around the impact of social criteria on value as they tend to be more subjective in nature.

In practice, Responsible Investing ensures the investor has taken into account all relevant risk factors and the potential impact on projected returns when evaluating an investment. Once the investor has evaluated the risks involved, they can then determine if the projected returns are appropriate.

In 2022, Queen's also became a signatory to the United Nations-supported Principles for Responsible Investment (UNPRI)²¹, which are the world's leading standards for Responsible Investing.²² As a signatory, Queen's is committed to ensuring ESG factors are fully incorporated into the University's investment process. The incorporation of ESG factors within investment analysis and decision making does not override prudent investment management. Rather, the [Responsible Investing Policy Statement](#) requires ESG issues to be considered along with all other factors on the basis of risk and return.

ESG factors are not considered independently of the broader risk analysis otherwise they could conflict with the Board and Investment Committee's fiduciary obligations. As fiduciaries, they may be held liable for investing in assets which yield a poor return or divesting at inappropriate times for non-financial criteria. All decisions pertaining to Responsible Investing are guided by the fiduciary responsibilities requiring the Board to ensure the prudent investment of the University's assets. ESG

“...Responsible Investing ensures the investor has taken into account all relevant risk factors and the potential impact on projected returns.”

²¹ The Committee benefited from the fact that its member, Dr. Raymond, had been the sole Canadian co-author of the UNPRI.

²² See Appendix III for the UNPRI's Six Principles of Responsible Investment.

factors help the Board and the Investment Committee assess and monitor the risk of investments, allowing them to fulfill their fiduciary obligations.

Corporate engagement activities²³ can be effective when dealing with ESG issues.²⁴ Due to limited resources and the relatively small size of the University's investment portfolios, engagement activities are generally best employed through the activities of the University's external investment managers and/or through participation in coalitions of investors with similar fiduciary responsibilities.

The UNPRI also requires signatories to engage with portfolio companies on ESG matters. Given that the PEF and PIF are managed externally and the resources of the Queen's Investment Services Office are limited, Queen's must rely on its external investment managers to perform that engagement function on behalf of all pooled fund co-investors. In this context, Queen's has been a leader in the Canadian university sector in providing transparency in its Responsible Investing process. Specifically, Queen's monitors their investment managers' efforts through comprehensive annual ESG questionnaires which are published on its [website](#), in addition to a comprehensive list of security holdings.

²³ Corporate engagement activities such as letters to management and voting of proxies.

²⁴ Further details regarding Queen's approach to Responsible Investing can be found in the [Responsible Investing Annual Report](#).

Divestment

The Concept of Divestment

Divestment²⁵ requests are generally premised on a belief that divesting will help achieve a change in behaviour by a company. Unlike boycotts, divestments do not directly impact a company's earnings or profitability because divesting simply transfers ownership of the company's shares.

Proponents of the idea that divestment is a vehicle of change believe that large numbers of shareholders selling their shares will cause the share price to go down, thereby raising the cost of capital for the company. With a depressed share price, the cost of raising new capital (debt and equity) becomes more expensive, employee and Board of Directors stock options become less valuable, hiring may be more difficult, and remaining shareholders may become dissatisfied. The belief is that these dissatisfied stakeholders will pressure the company's Board and management to discontinue the activity prompting divestment. Any success in shifting company practice depends on the downward pressure placed on the company's share price being significant enough to prompt a change in behaviour or practices. Divestment success would require a series of knock-on effects to bring about change; there is no guarantee that any specific divestment campaign will successfully bring about the change for which it advocates.

Divestment may also have unintended effects or result in opposite outcomes than intended. A recent study indicated that companies in the energy sector who come under pressure due to increased cost of capital will likely respond by increasing hydrocarbon production in the short term.²⁶ Also, some financial speculators will establish funds focused on purchasing shares from divesting portfolios²⁷; as a consequence, the ownership of the company is simply transferred to investors who have no interest in influencing the company to change behaviour. Finally, divestment removes the possibility of potentially more effective activities including shareholder engagement. Investors give up any influence they may have over a firm's corporate policies when they sell their shares. Shareholders can engage with companies in which they own shares (or, in the case of Queen's, engage with its investment managers) to discuss specific Environmental, Social, and Governance (ESG) concerns and then monitor whether those concerns are being mitigated.

It is generally accepted, especially for a relatively small investor like Queen's, that a divestment or negative screen announcement is a tool to make a political or symbolic statement on a particular issue. Divestment campaigns, especially when combined with the consensus power of consumer boycotts

²⁵ Negative screening is closely related to divestment as it is intended to prevent future investment in companies that are or would be subject to divestment.

²⁶ See: *Pollution-Shifting vs. Downscaling: How Financial Distress Affects the Green Transition* [Kenan Institute of Private Enterprise Research Paper No. 4761314](#)

²⁷ See: *The Climate Short: Hedge Funds Pile Up Huge Bets Against Green Future* by Sheryl Lee, Ishika Mookerjee and Christopher Udemans. Bloomberg, October 21, 2024

and government sanctions, may stigmatize certain industries, companies, or nations and thus motivate change. In that case, divestment is not about the financial impact on the companies but the symbolic or political message that divestment would send.

Practical Implementation of the Proposed Divestment

The QUAD report requests divestment of 85 companies held in the PEF, totaling approximately \$152 million (9.9% of total PEF assets) as of December 31, 2023. The Committee has determined that any decision relating to divestment should also be applied to the PIF. As of December 31, 2023, the PIF had an additional \$70 million (11.5% of total PIF assets) invested in the same companies.²⁸

Pooled funds comprise 77% of total PEF assets and 96% of total PIF assets.

However, as there are currently no pooled funds that are restricted from making such investments, divestment and negative screening would require all pooled funds to be sold in their entirety and all funds moved to more expensive customized separate accounts.

“...divestment and negative screening would require all pooled funds to be sold in their entirety...”

Finally, the expectation is that some of Queen's current investment managers would need to be replaced, as Queen's investment accounts are too small to meet many investment managers' minimum asset requirements for separate accounts. The pool of potential replacement managers would be similarly restricted. As such, Queen's may not be able to invest with those it believes are the highest performing external investment managers, hence reducing future return expectations.

During its deliberations, the Committee reviewed estimated ranges of explicit costs relating to: the sale of all PEF and PIF pooled funds; the reinvestment of those funds into new separate accounts; and higher external management fees and internal administration costs for separate accounts. The estimated costs are Investment Services' best projection, but it is understood that these explicit costs would not be insignificant, especially when taking into consideration the effects of compounding over many years. It is estimated that these costs could add up to millions of dollars annually.

Of greater significance is the impact on risk and return in the future.

Limiting the opportunities to invest by divesting from or negative screening securities for non-investment reasons will reduce the probability of maximizing returns for any given level of risk. Divestment and negative screens will result in portfolio returns differing from the portfolio's

²⁸ Direct exposure to the relevant securities through separate accounts is minimal, representing only 0.9% of Queen's total exposure to the companies on QUAD's list (two companies). Direct exposure to the relevant securities refers to assets Queen's owns through separate accounts.

investment benchmark, which is closely monitored by the Investment Committee to mitigate unintended risks, while ensuring intended risks²⁹ are appropriately sized and rewarded. It is expected that the proposed divestment and negative investment screen would result in a significant increase in portfolio risk relative to its benchmark without any expectation of higher returns, thus weakening the risk-return expectations of the portfolios. Although past performance is not necessarily an absolute predictor of the future, and is sensitive to starting and ending dates, an analysis showed that a “divested equity portfolio” materially underperformed the MSCI World Index³⁰ over 1, 5, and 10 years by approximately 1%.

This risk-return sacrifice would be in addition to the added explicit and implicit costs of the portfolio restructuring.

“This risk-return sacrifice would be in addition to the added explicit and implicit costs of the portfolio restructuring.”

²⁹ Intended risks refers to risks that are expected to be adequately compensated in the form of higher returns.

³⁰ The MSCI World Index represents 85% of mid and large cap companies in the developed world. A significant portion of Queen’s equity exposure is through a pooled fund that passively tracks the MSCI World Index.

Institutional Neutrality & Lack of Consensus at Queen's

Many submissions and presentations emphasized the significant suffering, death and destruction in Israel, the West Bank and Gaza over decades and during the current conflict. The divestment debate is directly connected to individuals' deeply held beliefs and personal experiences about this conflict. The Committee heard strong, opposing perspectives. Many presenters shared that they have experienced increasing levels of fear, hate, and mistrust on campus, in the Kingston community and Canada – it is real.

This process has raised concerns about the current inability on campus to have meaningful dialogue. Universities are meant to be spaces of discussion and deliberation that foster a respectful and inclusive environment where ideas can be expressed and explored with openness, tolerance, and academic rigour. As a signatory of the [Magna Charta Universitatum](#), Queen's has committed to upholding and advancing three fundamental principles:

- the university is a site for free enquiry and debate, distinguished by its openness to dialogue and rejection of intolerance;
- research and teaching are intellectually and morally independent of all political influence and economic interests; and
- teaching and research should be inseparable, with students engaged in the search for knowledge and greater understanding.

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- **teaching and research should be inseparable, with students engaged in the search for knowledge and greater understanding.**

In order to foster such an environment of free and open enquiry and to protect such academic freedoms Queen's has adopted a practice of not issuing University statements that take an institutional position on global or domestic affairs, consistent with the [Chicago Principles](#) and [Magna Charta Universitatum](#). Principal Deane published [guidance on institutional statements regarding global or domestic affairs](#) on September 19, 2024 for the Queen's community. While individuals can

and should express their opinions on issues of concern, Queen's, as an institution, cannot, except on matters directly relevant to its functioning as a university, speak on behalf of the whole community.³¹ The recommendations put forth by this report must adhere to this institutional practice and the obligations to which the University has committed, including institutional neutrality.

The members of the Committee understand that it is not possible to reconcile fully empathy and institutional neutrality in such a charged environment to everyone's satisfaction. In recognition of this, the Committee sought to ensure the process was balanced and sensitive, including giving interested parties the opportunity to engage and being transparent about the criteria by which submissions would be assessed and the ultimate decision would be made.³²

³¹ This practice is consistent with the principles outlined in the [Kalvin Report](#).

³² All submissions were assessed in accordance with the Committee's mandate; the Committee followed the criteria set out in the [Responsible Investing Policy](#).

Decision, Reasons, and Findings³³

The Committee recommends against divestment of Queen's pooled endowment and investment funds from companies conducting business in or with the State of Israel and against putting in place a negative screening process for future investments.

One Committee member dissented from this recommendation.³⁴

The Committee sought to make a principled decision based on the investment policy, consistent with fiduciary obligations and University policies, that recognizes the mission and role of the University. The recommendations are not based on a rejection of the existence of harm; the Committee is aware of the immense suffering over decades associated with this conflict. Many members of the Queen's community shared the pain and grief that the conflict has caused and is continuing to cause them and their loved ones. No part of this report denies the reality of those harms.

“The recommendations are not based on a rejection of the existence of harm; the Committee is aware of the immense suffering over decades associated with this conflict.”

The Committee's recommendation is based on the following considerations:

1. Fiduciary responsibilities and the [Responsible Investing Policy](#):

The Committee is obligated to ensure its decision and recommendations, if implemented, do not require fiduciaries to breach their legal obligations. No recommendations should expose the Board of Trustees or the Investment Committee to any potential legal liability. Critical to the decision was the fact that it is contrary to the Board and Investment Committee's fiduciary obligations for Queen's investment decisions to be dictated by a political or symbolic statement without regard to the financial consequences. Their fiduciary obligations require that the University's investments be managed prudently with a view to maximizing financial returns.

Similarly, the [Responsible Investing Policy](#) requires the Committee make its recommendation based on the factors set out in the policy and not whether Queen's should take a political or symbolic stance on the issues raised by the request. The Committee is obligated to consider how this special request would impact Queen's financial health and whether it aligns with various obligations of both the University and those managing the University's investments.

³³ The Committee met five times from November to mid-January to review and discuss its learnings and findings from the information gathering phase. Non-voting advisors were included only as required. A formal vote to approve this recommendation and report was not conducted until January 16, 2025.

³⁴ The dissenting view is outlined on page 29.

The Committee has concluded that the information presented concerning the feasibility and costs to implement such divestment and negative screening, and the resulting increase in portfolio investment risk, is significant. Accordingly, this divestment would not comply with the fiduciary obligations of the Board and Investment Committee nor the [Responsible Investing Policy](#).

“...divestment would not comply with the fiduciary obligations of the Board and Investment Committee nor the [Responsible Investing Policy](#).”

2. Role of the University and academic freedom:

Institutional neutrality was another key factor in the Committee's decision-making. Institutional neutrality requires the University not to use its administrative functions to promote a political or symbolic stance on domestic and global current events as doing so could inhibit academic freedom and an environment of free and open inquiry. A decision to divest or establish a negative screen on the basis of a political or symbolic position would clearly be taken as the University advancing a particular position, in violation of Queen's institutional practice of neutrality. Investment decisions that comport with institutional neutrality are based solely on an analysis of the financial risk and potential returns. That analysis must consider ESG factors as part of the financial risk analysis; but considering ESG factors in the financial evaluation of an investment is distinct from the promotion of political views.

“...considering ESG factors in the financial evaluation of an investment is distinct from the promotion of political views.”

3. Effectiveness of divestment:

The Committee is also concerned that divestment and negative screens as agents for behavioral change are generally ineffective. Divestment assumes downstream effects will materialize after investors have given up their most effective leverage: their shares. Queen's actions as they relate to ownership of these companies are relatively insignificant in a global context. Queen's holdings represent an average ownership of only 0.002% of each company across the PEF and PIF combined. Accordingly, any decision to divest would be purely symbolic. Indeed, during consultations, presenters generally agreed that there would be no measurable impact on the behaviour of divested companies. Those in favour of divestment expressed hope that Queen's divesting, although symbolic, might spur other institutional investors to follow; whereas some against divestment expressed concern that it would signal that Queen's is anti-Israel and anti-Semitic. Queen's University does not and should not engage in partisan adjudication when it speaks on behalf of the whole community. To do so would violate institutional neutrality.

4. Lack of consensus:

The level of disagreement and complete lack of consensus on this topic sets this request apart from past divestment campaigns at Queen's. In past instances, the Canadian government, and many other governments, had already imposed sanctions on the nations at issue (South Africa and Sudan) when Queen's was considering divestment.³⁵ No such general international consensus exists in this case and as of the date of this report, the Canadian government has not imposed sanctions on the state of Israel.³⁶

“...complete lack of consensus on this topic...”

Members of the University community have widely divergent views on this topic. It is the role of the students and faculty to discuss and criticize political and social issues, whereas the University's role as an institution is to facilitate and support the students and faculty in their quest to do so, lawfully, without promoting any particular position.

³⁵ In the case of South Africa and apartheid, by the time Queen's considered and ultimately divested from four South African companies, there was a general global consensus amongst governments and institutions against South Africa's policies. Similarly, when Queen's announced it was divesting from two Chinese oil companies doing business in South Sudan, there was global consensus against the actions of those companies.

³⁶ The Canadian government has imposed sanctions on entities and individuals in the Hamas financial network and on entities and individuals engaging in or supporting Israeli extremist settler violence against Palestinian civilians.

Dissenting View

One Committee member dissented from the recommendation and had the following view:

They agreed with the Committee's recommendation with regard to not divesting from, or negative screening of, all companies conducting business in or with the State of Israel.

However, they felt the Investment Committee should consider a general exclusion of investments in companies that directly manufacture weapons of war that are prohibited by international treaties to which Canada is a signatory (some of which may be included amongst the companies listed by QUAD). The member believes that being invested in such companies is inconsistent with the [University's strategy](#) which is oriented towards making a positive impact on society and on the world we inhabit and that these investments pose a substantial risk to the environment and humanity which contradict Queen's practice of focusing on the [United Nations Sustainable Development Goals](#).

Additional Recommendations

All members of the Committee have developed the following additional recommendations for Queen's concerning the [Responsible Investing Policy](#):

Review the Responsible Investing Special Request Procedure

Given the high bars of fiduciary responsibility and institutional neutrality, the Board should revisit the requirements of the [Responsible Investing Policy](#) with respect to when a special request is eligible for consideration. During the consultation process, the Committee received several recommendations to expand the list of companies and countries to divest, unrelated to the current request under consideration.

The Committee believes that it is important that members of the University community are provided

with an opportunity to make recommendations on Responsible Investing to assist the Board of Trustees in discharging its fiduciary responsibilities. However, there should be a mechanism to qualify requests at the front end of the process since Queen's funds (including the PEF and PIF) are not to be used to make political or symbolic statements. Future special requests should be required to articulate how their recommendations are consistent with fiduciary responsibility and institutional neutrality and would be effective in changing behaviour.

Engagement with Investment Managers

Included in its current work plan, the Queen's Investment Services Office and Investment Committee are reviewing the [Responsible Investing Policy](#). The policy currently focuses mainly on environmental factors consistent with the University's carbon reduction commitments and careful consideration of the risks and opportunities related to the green transition.

The impact of corporate governance on investment performance has also been well researched and understood within the asset management industry and, accordingly, is addressed in the annual ESG questionnaires to Queen's investment managers (e.g. diversity and proxy voting practices).

However, assessing the risk and return contributions of social factors is a complex and evolving challenge given a lack of consensus and established frameworks in the asset management profession. As part of the ongoing policy review, the Investment Committee should consider how to evaluate investment managers with regard to their practices in assessing social factors that may be associated with an investment, on a risk and return basis.

“...the Board should revisit the requirements of the [Responsible Investing Policy](#) with respect to when a special request is eligible for consideration.”

As best practices in this area are still evolving, the Committee recommends that the Queen's Investment Services Office coordinate with investment managers, peers at other Canadian universities and academics with expertise in the ESG space to take stock of potentially emerging methodologies and practices that may inform the [Responsible Investing Policy](#).

Provide Information on the Source and Critical Function of Queen's Investment Funds

Based on the written submissions and in-person presentations, it is clear that there is significant confusion surrounding the source of funding and significant role that Queen's investment funds play within the university. For example:

- concerns were raised by some about tuition money being invested in companies they find objectionable. Tuition fees are not invested in the PEF and PIF. All tuition fees are expended in the year received to pay a portion of the University's annual operating expenses.
- during the consultation period, presenters did not discuss the value to the University of its investment funds and the negative impact a reduction in investment income would have on Queen's. Student aid and many faculty initiatives are funded by the income derived from Queen's investment funds, and for those reasons, investment returns do matter.

“Student aid and many faculty initiatives are funded by the income derived from Queen's investment funds, and for those reasons, investment returns do matter.”

The University should endeavour to take additional steps to educate the Queen's community about the sources of its investment funds, the important role that they play as a key differentiator at Queen's, and how they are managed on an ongoing basis.

Ancillary Matters

Many issues beyond the scope of the Committee's mandate were raised during the consultation and deliberation process. All members of the Committee have developed the following suggestions for Queen's based on its deliberations and the concerns that emerged during the consultation process:

Address the Campus Climate

The Committee saw first-hand that on and off campus, there are members of the Queen's community that feel the presence of fear, hate, and frustration. Queen's, working with organizations on campus and the broader Queen's community, should use every opportunity to foster opportunities for constructive dialogue. All members of the Queen's community should feel respected, valued, and safe.

“All members of the Queen's community should feel respected, valued, and safe.”

The University must monitor this climate carefully. It should continue work such as the [Queen's University Anti-Hate Advisory Group](#) and provide sensitivity and conflict management training and preparation for faculty and administrators, and support for student leaders.

Audit Public Facing Materials

Queen's has adopted the concept of institutional neutrality in order to encourage and foster academic freedom. It is therefore important that the University embeds that concept in all of its communications. The University's website and any other public facing institutional materials should be carefully audited to ensure that they do not contain statements that violate that principle.

Contribute to Reconstruction

Finally, Queen's should contribute to post-conflict reconstruction of Gaza, the West Bank, and Israel. Queen's should take actions consistent with the University's mission and within the scope of its role. For example:

1. Queen's could offer scholarships to students and visiting professorships to people directly affected by the conflict.
2. Through financial assistance or the engagement of Queen's departments with relevant expertise, Queen's could assist in the reconstruction of Gaza.

However, any engagement in post-conflict rehabilitation should be direct and thoughtful with a focus on education consistent with the role of the University. The support must not impose external intervention that does not comport with the culture of the communities. Moreover, offers of external support in post-conflict regions is typically greatest in the immediate aftermath of conflict when the

affected region is often the least able to absorb support. In this context, efforts to support reconstruction would be more impactful if sustained over several years.

Appendices

Appendix I – Pooled Endowment Fund Management

Pooled Endowment Fund (PEF)

Assets under management as of September 30, 2024: \$1,718 million

The Pooled Endowment Fund (PEF) is an investment pool primarily comprised of funds that have been donated to the University and designated to Endowment accounts. Each year, amounts are withdrawn according to the Board-approved spending policy.³⁷ These annual withdrawals fund scholarships, academic chairs, book funds, lectureships, as well as a diverse range of university programs. Each month, the University withdraws the necessary funds to provide for the current fiscal year payout of 2023-24, which has been determined to be approximately \$60 million.³⁸

Endowment assets held in the PEF are generally permanently restricted and cannot be used to fund the University's operations. Annual spending must align with the terms of reference established by donors.

Subject to levels of risks acceptable under a "prudent portfolio" approach to investing funds of this nature, the primary objective of the Pooled Endowment Fund is to maximize risk-adjusted returns in furtherance of two competing goals: the goal of releasing substantial income to support scheduled drawdowns and the goal of preserving the purchasing power of assets for future generations.

The PEF is well diversified across individual securities, asset classes, and geographies. The table below outlines the Strategic Policy Asset Mix for the fund.

Strategic Policy Asset Mix – PEF

Asset Class	PEF Asset Mix	Asset Mix Range
Equities (including Private Equity)	65%	45% - 75%
Fixed Income & Absolute Return	13%	0% - 40%

³⁷ Current spending policy targets a 4.0% long-term spending rate using a smoothing formula to assist with departmental budgeting.

³⁸ \$25 million to student aid, \$27 million to academic chairs, departmental and other; and \$8 million to general operating income.

Real Assets	20%	0% - 30%
Cash and Short-Term Investments	2%	0% - 20%

To sustain the PEF's 4.0% annual payout in perpetuity and preserve the payout's purchasing power, the PEF needs to earn an annual return of approximately 6.4%, net of investment management expenses. As shown in the table below, the PEF's actual returns have exceeded the required return over the long-term, thus helping to build a capital preservation buffer to enable continued payouts even during the inevitable market downturns.

Annualized Nominal Returns (Gross of Fees) as of September 30, 2024

Annualized Nominal Returns of PEF

	5 years	10 years	15 years	20 years	25 years
PEF Nominal Return	10.0%	8.8%	9.4%	8.0%	8.0%

Complete holdings information can be found on Investment Services' [website](#).

Appendix II – Pooled Investment Fund Management

Assets under management as of September 30, 2024: \$478 million

The **Pooled Investment Fund (PIF)** comprises expendable cash balances (some of which are externally restricted) that are not expected to be disbursed within the next three years. As such, they are invested to maximize medium-term nominal returns subject to the risk tolerance determined by the Board of Trustees (as specified through the Strategic Policy Asset Mix). The capital of this fund is expendable (with some exceptions).

PIF Asset Class

Asset Class	PIF Asset Mix	Asset Mix Range
Equities	65%	40% - 70%
Fixed Income & Absolute Return	35%	0% - 60%
Cash and Short-Term Investments	0%	0% - 30%

Complete holdings information can be found on Investment Services' [website](#).

Appendix III – UNPRI's 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.