

Addressing Global Warming: The uOttawa Response

A Report from the Finance and Treasury Committee to the Board of Governors of the University of Ottawa

April 2016

Introduction

In June of 2015, the Board of Governors (“the Board”) of the University of Ottawa (“uOttawa”) asked its Finance and Treasury Committee (“FTC”) to consider the question whether uOttawa should divest from its investments in fossil fuels. In response, the FTC undertook a methodical examination of the question that included

- Hearing from advocates for the divestment movement;
- Commissioning experts’ reports;
- Reviewing current and proposed uOttawa investment policies;
- Examining best practices elsewhere; and
- Organizing public discussion panels on campus and inviting the participation of all those with views to share.

The FTC has decided that it can best assist the Board by addressing not just the narrow question of divestment, but rather the larger issue of how uOttawa can contribute to the collective effort in Canadian society to confront the threat posed by climate change and global warming. The FTC feels that it is only by considering that more general question that a meaningful response can be provided on the specific issue of divestment.

Taking up the challenge

Addressing global warming and climate change while building a low carbon economy is arguably the major challenge of our time, for Canada and the world. The recent Paris Climate Summit resulted in an unprecedented global commitment to act on this problem. And uOttawa is seeing that commitment reflected in Canada, with climate change becoming a top priority for the federal government and major provinces, as evidenced by the recent First Ministers declaration, the federal budget, and Ontario's new cap and trade system (joining Quebec).

It is also a growing economic priority. Rising pressures from governments, investors and consumers to cut greenhouse gases, combined with the accelerating pace of clean technology innovation, mean that generating low carbon products, processes and services is becoming a major area for growth for businesses and jobs across Canada and the world. All signs are that this issue will continue to be a high priority, politically and economically, for years to come, driven by global pressures, technology change, and climate realities.

uOttawa has earned its place as a leader among major universities in Canada and beyond through concrete actions and long-standing commitments to tackle climate change risks head-on. As defined in the strategic plan, *Destination 2020*, uOttawa plays a leading role in finding innovative solutions to environmental problems and in training the green leaders of tomorrow. Our approach is comprehensive and multi-faceted, encompassing research and academic initiatives as well as operational and investment practices.

The Fossil Free uOttawa divestment campaign arrived on campus over a year ago and has been very successful in stimulating a debate about the role the University should play in the fight against global warming. We are grateful to them, as we are grateful to our students and faculty, for bringing these issues forward and engaging so constructively in the ensuing debate.

That debate has prompted uOttawa to take a close look at what we, as an institution, are doing now, and how we can do even more in the collective effort to confront climate change. In the process, our community of students, staff and faculty has been mobilized and engaged in open dialogue, exploring ways to build on our current efforts and establish a leadership role as an investor and as a corporate citizen and educator. In other words, how best to use all of uOttawa's available assets to assist our society in moving to a low carbon economy.

uOttawa is proud of what has been accomplished so far. We agree that in meeting the challenges of climate change, global systemic change is required, and that only a real transformation of the global economic system can produce the scale of change that is necessary to limit global warming and prevent climate change that could be catastrophic to the environment and the world. And uOttawa is committed to doing its part through a bold approach in every aspect of our efforts to confront climate change: how our funds are invested; how we prepare the next generation of leaders; how we develop new technologies to replace carbon-emitting practices; and how we operate a multi-million square foot campus hosting close to 50,000 students, faculty and staff.

Our achievements

The FTC considered information that establishes that uOttawa is a leader among universities around the world in both its sustainability practices and in its adoption of responsible investment policies and procedures.

(i) How we manage our own campus infrastructure

uOttawa has a well-established standard of excellence in managing and reducing its own environmental impact:

- Sustainability initiatives on campus date back to 1974, when the first engineer was hired to manage the campus's energy consumption.

- Since 2006, the Office of Campus Sustainability has coordinated all of the campus's sustainability projects alongside other administrative units.
- Through a variety of programs, uOttawa is taking steps towards a better environment, such as reducing its consumption of water and fossil fuel energy and its own GHG emissions, despite continued campus growth in both its population and its buildings.
- uOttawa was, for example, one of the first campuses in Canada to ban bottled water.

Success is evidenced by take-up for our intensive recycling programs, accommodations made for pedestrians and cyclists, and major projects like energy efficient facilities. All of this helps make uOttawa an environmentally responsible organization, and reduce its environmental footprint. Our commitment to reduce our own GHG emissions by 34% between 2005 and 2020 (double Canada's national target) is on pace to achieve that goal¹

Additional evidence of our progress is found in the improvement to uOttawa's performance under the Sustainable Tracking and Rating System (STARS), which awarded us a silver rating when we last participated in 2013. The Campus Sustainability Office in collaboration with the investment staff has set the bold target of achieving the STARS gold rating (highest) in 2016, based on continuous improvements made over recent years.

In terms of oversight, uOttawa established the Sustainable Development Committee (SUDCOM) in 2007 with a mandate to provide advice and put forward ideas on best practices pertaining to campus sustainability. Membership is comprised of representatives from the staff, faculty, student body and community. A process is currently underway to update the SUDCOM mandate.

¹ Final emissions numbers for fiscal 2015 – 2016 are not yet available, but based on preliminary figures it is likely our GHG emissions will be under 15,000 tonnes, the best ever, representing a 32 per cent reduction from our baseline tonnage of 22,109 in 2004-2005.

(ii) How we invest

Since 2009, uOttawa's responsible investment approach has been aligned with the United Nations (UN) supported Principles for Responsible Investment (PRI). In March 2013 uOttawa became a signatory of the PRI, widely recognized as the investment industry's highest standard. It provides a "best practices" framework through its principles-based approach. Responsible investment integrates environmental, social and governance (ESG) criteria in the investment decision-making process alongside economic factors.

In signing on to the PRI, uOttawa made a public commitment to make investment decisions that consider ESG issues while taking appropriate steps to meet fiduciary responsibilities to optimize investment returns. The annual PRI reporting questionnaire provides benchmarking that has informed our process for identifying specific areas to expand on previously established investment initiatives.

In November 2015, uOttawa became the first Canadian university to sign the Montreal Carbon Pledge, joining \$8 trillion in global investors in the lead-up to the Paris Climate Summit. Under this landmark commitment, we have now committed to measuring and publicly disclosing the carbon footprint of our investment portfolio on an annual basis. This will provide even greater transparency by measuring and disclosing the carbon footprint of the investment portfolio and providing a basis from which to identify reduction targets.

(iii) How the FTC has managed the consultation

In February 2015, a joint information session was convened by the FTC and the Pension Fund Investment Committee (PFIC), at which a presentation was made by students associated with *Fossil Free uOttawa*, advocating divestment from fossil fuel companies as a step to address climate change concerns.

In April 2015 uOttawa commissioned a paper by a well-known expert, Dr. Tessa Hebb, to provide her perspective on the issues raised by the Fossil Free uOttawa divestment campaign. Dr. Hebb's paper, along with her detailed recommendations, was delivered to the FTC and then put before the Board in June 2015.

Concurrent with the work undertaken by Dr. Hebb, in spring 2015 the administration produced its internal Report on Sustainable Development encompassing the many operational and investment initiatives undertaken over several years. That report was also received by the FTC, tabled with the Board in June of last year, and published on the uOttawa website.

In June 2015, updated responsible investment guidelines were recommended by the FTC, approved by the Board and published on the uOttawa website. The new guidelines identify objectives and outline specific actions that are taken with respect to each of the six Principles for Responsible Investment (PRI).

As uOttawa's investment staff reviewed Dr. Hebb's recommendations, the administration sought the advice of one of its own experts, Dr. Stewart Elgie, Professor, Faculty of Law (Common Law) and Director, Institute of the Environment. Professor Elgie prepared a response that was supportive of the recommendations in Dr. Hebb's paper and provided specific action items for uOttawa to undertake.

In March 2016, the FTC arranged for panel discussions to be held on campus as a forum for a broad spectrum of views to be heard on the subject of climate change and the divestment question. There were three separate panels at this important event:

- The first panel brought together a variety of perspectives on the issues, while highlighting the uOttawa investment and operational initiatives currently in place;

- The second panel was comprised of academic experts who discussed important research that could trigger a real breakthrough to accelerate development of clean energy technologies and the policies needed to transition to a low-carbon economy; and
- The third panel, organized by students, promoted the moral imperative behind the campaign to divest from fossil fuel companies to respond in response to climate change risk.

The panel discussion may be viewed on our website: click on this link [to view the recording of these panels.](#)

The panel discussions were the final step in the FTC's outreach efforts and its thorough evaluation of how uOttawa can best address climate change and, in that context, how to respond to calls for divestment.

The way forward:

Finding solutions to climate change

The FTC has given careful consideration to all of the information produced and the views expressed during the process that it has managed during this past many months.

In our view, uOttawa can have the greatest impact in advancing climate solutions by continuing to take a "holistic approach". This includes managing our own operations and facilities in an exemplary way, but also taking the lead in research relating to climate and environmental problems, and educating the green leaders of tomorrow. These latter two are contributions that universities are uniquely positioned to make: addressing climate change will involve developing and accelerating innovation in science, engineering, economics, policy and other areas. uOttawa has significant expertise and strength in all of these fields.

A number of teaching programs, research initiatives and related activities contribute to the advancement of knowledge and the science of sustainable development:

- The Institute of the Environment has a multi-disciplinary Master's program and an interdisciplinary Master of Science program in Environmental Sustainability;
- The Master's of Science program gives our graduates the capabilities and qualifications needed to find regulatory solutions and effective policies for the complex, multidimensional challenges confronting the environment;
- The Faculty of Law has one of the largest selections of Environmental Law courses in the country; and
- More than 130 courses related to sustainability are offered at the undergraduate level and approximately 30 courses at the graduate level.

For many years, uOttawa's researchers have been studying a wide variety of issues directly or indirectly related to the environment and sustainable development. This research encompasses many fields, including agriculture, biodiversity, conservation, climate change, ecosystems, ecotourism, threatened species, environmental law, and various aspects of engineering. A notable example is the potentially ground-breaking research to resolve the storage issue for green energy technologies.

The FTC has heard from the administration that in order to expand on uOttawa's significant existing capacity in the academic and research dimensions, uOttawa is committed to:

1. Create a *Clean Innovation Research Fund*, under the purview of the Vice-President Research, which will allocate expendable funds up to \$3 million by 2020 to support research, teaching and graduate scholarship effort. Half the funds will come from uOttawa, and half from matching donations; and
2. Establish a forum to stimulate discussion and debate on campus on how uOttawa can best enhance its impact in teaching, research and public engagement to combat climate change risks.

The FTC welcomes these steps as effective ways to deepen and broaden uOttawa's teaching and research activities as they relate to the environment.

Acting as a leader in Sustainability: Managing our Operations and Facilities in an Exemplary Way

uOttawa adheres to the definition of sustainable development set out by the World Commission on Environment and Development in 1997: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

As described in its strategic plan, *Destination 2020*, uOttawa plays a leading role in finding innovative solutions to environmental problems and in training the green leaders of tomorrow. It also plays an active role in building a sustainable society by providing an example to others of how to manage our operations and facilities in a sustainable way.

We are the most active campus across Canada when it comes to campus sustainability, thanks to our intensive recycling programs, the accommodations we make for pedestrians and cyclists, and the way we manage green spaces. All of this helps to achieve two key objectives: to make uOttawa an environmentally responsible organization and to reduce our environmental footprint.

Through a variety of programs, uOttawa is reducing its consumption of water, fossil fuel energy and its greenhouse gas (GHG) emissions, despite continued campus growth, including both in its population and buildings.

Consistent with the holistic approach to tackle climate change risks, uOttawa is committed to:

1. Deliver on our measurable goals to reduce our environmental footprint from operations in an amount that exceeds the targets set out in Canada's climate change pledge: that is, to
 - Reduce energy consumption by 2% annually despite the growth experienced on campus;
 - Reduce direct GHG emissions (type 1) 34% over 2005 levels by 2020, meaning GHG emissions will be 13,000 tonnes or less by 2020; and
 - Improve uOttawa's operational effectiveness by investing \$6 million in major energy projects as part of its Eco-prosperity program.

2. Continue our efforts to reduce our campus' impact on the environment:
 - Put in place measures to achieve the goal of becoming a Zero Waste Campus;
 - Use water efficiently, with drinking water consumption amounting to no more than what falls on campus as precipitation—reducing consumption by 2% per year;
 - Increase the amount of functional indoor and outdoor green space and meet the LEED Silver standard for major construction projects (above 10,000 m²); and
 - Increase access to local and organic food, fair trade products, and vegetarian and vegan foods on campus.

3. Strengthen our environmental sustainability policy and the mandate of our Sustainable Development Committee (SUDCOM) to support additional measures to reduce GHG emissions:
 - Increased promotion of the necessary shift to low carbon economy;
 - Assess sustainability issues and submit recommendations;
 - Suggest policies to improve the University of Ottawa’s performance under the Sustainable Tracking And Rating System (STARS);
 - Create and manage projects that seek to improve sustainability on campus; and
 - Create and manage volunteer-based sub-committees focused primarily on sustainable development issues.

Acting as a responsible investor

Among the many steps uOttawa is taking to confront global warming, those in relation to our investment decisions will have the least impact on reducing GHG emissions. The most important contribution towards that objective will come from our leadership in teaching and research, and from doing a top notch job of managing our own environmental footprint.

That having been said, there has been a growing movement at uOttawa in recent years toward *responsible investment*. While advocates for divestment have garnered much attention in high-profile campaigns around the globe, a general consensus has emerged towards a more comprehensive – ESG-based – approach, mainly because of the limited impact arising from decisions to divest from fossil-fuel companies.

After a thorough assessment, the Finance and Treasury Committee has concluded that uOttawa should maintain its current “responsible investment” approach. Considering ESG factors as they pertain to all sectors of the economy offers the

best chance of success in our efforts to combat climate change, while still fulfilling our fiduciary duties.

As highlighted in Dr. Hebb's paper, many higher education institutions have opted not to divest, mainly because divesting from fossil fuel companies is an insufficient response to the climate change threat.

A number of Canadian universities have followed uOttawa's lead on responsible investment. They have sought our advice, drawn from our experience and made reference to our reports as they grapple with these issues.

We are committed to continuing in that leadership role.

And the evidence shows that what we are doing works: GHG emissions from public equities in our portfolio are lower than the investment industry's benchmark – 31.8% lower for uOttawa's \$2 billion pension plan portfolio and 7.3% lower for the University's \$0.7 billion long term portfolio, comprised of endowed funds and other financial assets².

The responsible investment guidelines apply follow what was outlined in Dr. Hebb's paper in many respects, with consideration for implementation issues. Our approach is also in line with recent announcements in the university sector (see Exhibit 1, page 17).

Additional Steps towards Responsible Investments

The FTC heard from the administration that in order to consolidate and add to uOttawa's leadership in responsible investing, uOttawa is committed to taking further actions for the long-term portfolio that will generate measurable results.

² It is also important to note that there are no thermal coal companies in either portfolio, an indication of a positive "best in class" strategy.

1. uOttawa will remain a leader in the integration of ESG factors into investment decision-making. More specifically, we will:
 - apply existing policies to all assets under management and incorporate ESG factors alongside economic factors (i.e. positive screening to obtain best in class portfolios);
 - continue our engagement with companies through external investment managers, who will advocate for shareholders and demand increased transparency and disclosure on climate change risks;
 - require external investment managers to report on ESG integration for investment decisions as well as shareholder engagement activities; and
 - Monitor and report on proxy voting policies and activities conducted through external investment managers and demand diligence from those managers as active shareholders.

2. uOttawa will expand our actions to include portfolio tilting that will systematically increase uOttawa's investments in clean technologies:
 - We will create a separate *Clean Innovations Fund* of \$10 million for investment with uOttawa, by providing the initial seed capital from the long-term portfolio; and
 - We will build exposure to renewable (green) energy and other clean solutions by increasing our investments in enterprises involved in creating and selling these technologies.

3. uOttawa will actively participate in the Carbon Disclosure Project, as a signatory of the Montreal Carbon Pledge. We will:
 - Measure and publicly disclose the GHG emissions from the investment portfolios and closely monitor our investment risks in fossil fuel entities;
 - Advocate for Canadian companies to disclose their carbon footprint and indicate how they will reduce their carbon use; and

- Establish a measurable goal to reduce the carbon footprint of the investment portfolio in-line or to extend Canada's national climate target, to be determined and monitored by the FTC.
4. uOttawa will produce and publish an annual report on our responsible investment activities, in order to track progress and provide transparency to its stakeholders on these issues.
- Such a report will hold us accountable to what we are committed to accomplish with respect to responsible investment.
 - The report will detail the steps uOttawa has taken to integrate ESG with its external fund managers; and
 - Any actions uOttawa has taken to engage companies in raising their ESG standards, its proxy voting record, and any other responsible investment actions taken over the year.

What about Divestment?

Despite everything that uOttawa has done, is doing and proposes to do in confronting the threat posed by climate change and global warming, the question will be posed: Why not do all of that *but also* divest from investments in fossil fuels?

Shortly stated, the FTC is of the opinion that divestment is an insufficient and an ineffective response to global warming.

Consider the following:

- While divestment may have some symbolic significance, it is surely more effective to remain invested and to use means available to us as investors to influence companies in our portfolio to behave responsibly;

- In addition, divestment poses the difficult question “where to draw the line”: does it mean only selling shares in fossil fuel producers? Or does it also mean selling shares in those companies that sell or transport fossil fuel? What of those that are major users of fossil fuels? What degree of fossil fuel use is sufficient to trigger divestment? This definitional dilemma is very difficult to resolve;
- If divestment is to be limited to fossil fuel producers, once again the gesture seems ineffective. Such companies comprise a relatively small component (about 10%) of uOttawa’s portfolio of public equities, and GHG emissions are largely driven by other industries. In fact, more than 75% of the GHG emissions from our public equities come from other sectors, so that reallocation of our investments from the fossil fuel component would have negligible impact on GHG emissions;
- In any event, fossil fuel production is largely beyond our ability to influence through our investment strategy. Three quarters of world oil is produced by state-owned companies in countries like Russia, Iran, Saudi Arabia, China, and Venezuela. Those state owned entities also hold 90% of known fossil fuel reserves. Divestment by uOttawa will have no impact on these major producers;
- Divestment will not reduce the demand side, which is the real driver of the fossil fuel industry. The most effective way to reduce demand is by consuming less ourselves (as we are committed to do) and developing new technologies that will replace carbon-using practices;
- Selling the University’s shares would involve a buyer on the other side and that change in ownership would not impact the companies’ access to capital or reduce global GHG emissions; and

Surely the more effective response, therefore, is a holistic one, as outlined in this paper: doing what uOttawa can uniquely do best through its teaching and research

activities, while carrying on our operations in an exemplary manner and managing our investments in keeping with the highest standards of responsible investing.

Conclusion

For the reasons expressed above, the FTC urges uOttawa to continue its holistic efforts to combat global warming and climate change. We believe that a combination of continued teaching and research excellence in matters related to the environment, prudent management of our operations and facilities, and responsible investment in our long-term portfolio will meet uOttawa's responsibility to contribute meaningfully to the collective effort to save the planet.

EXHIBIT 1: Divestment Campaign Updates Since Summer 2015

University of Toronto

Latest update: March 30, 2016

The university has rejected the petition to divest.

- However, the University will take steps to include environmental, social and governance (ESG) risks – including climate change – as considerations when it chooses direct and indirect investments.

<http://www.theglobeandmail.com/news/national/u-of-t-rejects-recommendation-to-divest-from-fossil-fuels/article29426921/>

McGill University

Latest update: March 23, 2016

The university has rejected the petition to divest.

- The Board of governors has endorsed a plan put forward by a subcommittee to set up a separate “socially responsible investment fund” for donors who want to avoid coal, oil or natural gas companies, and directed its fund managers to be more aggressive in looking for opportunities to invest in renewable energy and clean-technology firms.

<http://www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/mcgill-university-board-rejects-fossil-fuel-divestment-initiative/article29370273/>

Simon Fraser University

Latest update: March 30th, 2016

Rejected divestment request

- Committed to adopting environmental, social and governance (ESG) goals for all of its endowment
- Committed \$20 million of its endowment to a Socially Responsible Investment Fund

<http://www.theglobeandmail.com/news/national/u-of-t-rejects-recommendation-to-divest-from-fossil-fuels/article29426921/>

<http://www.sfu.ca/bog/summaries/2015/november.html>

Dalhousie University

Latest Update: March 16, 2016

The board of Governors rejected divestment in 2014.

A new report from Dalhousie University's senate (with no power to preside over financial matters) recommends the school create a formal policy on ethical investments to address climate change. This includes

- Creation of guidelines for investing, including: supporting companies working to reduce their use of fossil fuels, have recognized environmental best practices, and take part in public reporting.
- The committee also suggested avoiding companies that deny climate change and oppose global co-operation on climate mitigation.
- The recommendations of the senate committee will be reviewed by the board of governors, according to Brian Leadbetter, the director of communications for Dalhousie University.

<http://www.cbc.ca/news/canada/nova-scotia/dalhousie-university-senate-fossil-fuels-divestment-1.3491872>

University of British Columbia

Last update: Feb 15, 2016

Rejected proposal to divest.

- The board of Governors voted to put \$10-million toward a new fund that would invest in low-carbon ventures, which will be set apart from the more than \$1.4-billion the school currently has in endowments.

<http://www.theglobeandmail.com/news/british-columbia/ubc-board-of-governors-votes-against-divestment-from-fossil-fuel-industry/article28760064/>

Queen's University

Last update: November, 06, 2015

- Board of Trustees rejects divestment. No further actions announced in their Statement.

<http://www.queensu.ca/gazette/stories/investment-committee-makes-decision-divestment>