Report of the FPSE Pension Advisory Committee
SRI Sub-Committee: A Review of The College Pension Plan's Socially Responsible Investment (SRI) Practices
February 21, 2020

"We are in the beginning of a mass extinction and all you can talk about is money and fairy tales of eternal economic growth."

Greta Thurnberg, 2019

Executive Summary

Under FPSE's policy 5.12.2, the PAC SRI sub-committee has the responsibility of producing a report reviewing the College Pension Plan's socially responsible investing practices every three year. The first report was submitted to Presidents' Council in 2016. This is an executive summary of the second edition of the report. The 2016 SRI report very specifically addressed the questions laid out in the 2014 mandate of the sub-committee. This second report has gone into much further depth on how SRI is carried out in practice, its current state, and how it is being quantified. This was a challenging undertaking for a lay committee and was only possible due to the experience of long time PAC members

The principle of divestment was already covered in the 2016 report. However, divestment has gained traction over the last few years with over a thousand global institutions investors having committed trillions of dollars to divestment. Some significant and symbolic institutions joined the trend in 2019, such as the *Bank of Sweden* or the *EU's investment bank*. BCI hasn't joined this movement and prefers engaging companies through participation and ownership. There are also concerns regarding the fiduciary responsibility in the sense that choosing to divest from some companies could decrease the returns of the plan.

The report also re-examines the language of SRI and RI (responsible investment) and how it differs from ESG (short for Environmental, Social and Governance). ESG is less value-based and more applied (and limited in scope) than RI and especially SRI. The discussion on the differences is important because language can be used to obfuscate, mislead, or confuse people. SRI is a much stronger statement than RI and shifts the goal posts. Leaving out the 'social' aspect for instance, means potentially ignoring issues regarding human rights or labour standards. I t is recommended that BCI develop a relevant values framework that demonstrates leadership.

Regarding current BCI's practices, the report recognizes that BCI has presented a strategy but also finds it somewhat lacking compared to other plans around the world. Some of the limitations

include a relatively short timeframe used for the analysis (15 years) as well as a lack of hard targets regarding decreasing the carbon footprint of the plan. The following is thus recommended:

- That BCI take a more active, leadership role in addressing climate change
- That BCI set specific targets for reducing its carbon footprint
- That BCI extend its forecast horizon in order to better capture the potential risk of its investments to the environment.
- That BCI, as a matter of intergenerational justice, factor into its risk assessments risks to the maintenance of just institutions and access to a reasonable quality of life that will be borne by future pensioners.

One of the powerful ways to influence BCI's practices is through the SIPP (Statement of Investment Policies and Procedures). It is recommended that College Pension Plan trustees review this SIPP. Our trustees already have this on their agenda for the March 2020 meeting and are working with the Inter-plan Investment Committee to coordinate with the plan partners.

BCI believes ESG engagement is the appropriate mechanism for addressing concerns with companies. Priorities are decided based on the materiality of the risk, the ability to influence as well as research and data. BCI uses KPIs (Key Performance Indicators) to assess ESG risks. Those KPIs include, among others, climate change disclosure of companies, gender diversity or executives' compensation in Canada. While encouraging and promising, it is noted that the use of KPI's is still relatively new and thus our ability to measure progress on ESG is limited. Moreover, with the increasing importance of private equities investments, improved reporting in this area is desirable as well as the application of the KPIs. The report recommends the following:

- BCI should publish the detailed list of the 40 KPI currently being used and provide an aggregate rating on how well each one is being met.
- BCI needs to publish aggregate data on the number of companies engaged, the level of engagement, and the effectiveness of the effort.
- The ESG report is focused on public equities. Private equity investments are now at 8.5% of managed assets and the intention is to continue growing this area. BCI needs to develop a mechanism for reporting on the ESG performance in this area.
- BCI should report on how many companies they have been able to carry out an ESG analysis and some form of an aggregate score that tracks progress.

The report recognizes that BCI has made some serious progress over the last 4 years. A few highlights include the first reporting of the carbon footprint of its public equity portfolio in 2017 as well as of its fixed income in 2018. The same year, BCI adopted a Climate Action Plan that delineates its approach to the recommendations of the Task Force on Climate Related Financial Disclosure. Overall, we are seeing progress being made on the SRI (RI) front by BCI and look forward to seeing the various recommendations implemented.

1.0 Introduction

In spring 2014, The Pension Advisory Committee created the SRI sub-committee in order to carry out part of PAC's mandate under Section 5.12.2 of the FPSE policy and procedures manual. That Policy states,

> FPSE's Pension Advisory Committee shall review the College Pension Plan's socially responsible investing practices and triennially report on its findings to Presidents' Council. *(Revised: 2013 AGM)*
> *(1990 AGM)*

The members of the SRI Sub-Committee are:

- Ken Shaw, Local 11, Chair of the Sub-Committee, and Chair of PAC
- Bryan Breguet, Local 14
- Robert Pepper-Smith, Local 8
- Randy Brown, Local 9
- Weldon Cowan as staff support

This is the second time that PAC has undertaken a review of the College Pension Plan's SRI practices under Policy 5.12.2.

In September 2014, Presidents Council refined the mandate of the sub-committee ahead of the first report as follows:

> *In its triennial review of the CoPP's SRI practices, PAC shall:*
> *1) Target the spring 2016 PAC meeting for its first report*
> *2) Compare and Contrast CoPP's SRI screens and actions to FPSE's SRI screens and actions*
> *3) For each year 2013-2015, inclusive, identify the major SRI initiatives the CoPP has taken*
> *4) To the extent practicable and possible, identify exemplary SRI international practices*
> *5) Of the major CoPP investments, attempt to identify the "worst" SRI offenders*
> *6) List other ideas for consideration*

This mandate has not been updated by PC for the second triannual report.

The SRI landscape and the work of this committee has evolved significantly over the past decade. Two previous reports, the Feb 2015 Interim Report and the 1st 2016 Triannual Report should be read in conjunction to set the context of this document.

The most significant change in the SRI landscape has occurred in how phrases like "invest in the best financial interests of the members" is being interpreted. There is a greater consensus that a longer term view to investment decisions is needed to meet the best financial interests, although some would argue that is still too short. There is no longer any debate on whether ESG factors should be taken into consideration.

In the fall of 2018, PAC reported to PC that it would not be able to submit a triannual report of 2019 due to the demands of bargaining on FPSE staff. This report, therefore, covers the 4 year period from 2016 to 2020.

A draft report was presented to the November 15/16, 2019 PAC meeting and a workshop was held to gather feedback from the larger group. This information has been incorporated into the report.

Throughout the report, the committee will normally refer to BCI rather than to the College Pension Plan. The SRI sub-committee was charged with reviewing the practices of the College Pension Plan. However, the Plan invests all its funds through BCI. Consequently, the policies and practices of BCI as the investment manager of the Plan's assets are a key indicator of the Plan's RI performance. Secondly, BCI's reports on its aggregate Responsible Investing Activities and does not segregate that out between the 11 public sector pension plans and other public funds that it manages.

The authors have relied on publically available information found on the BCI website for the preparation of this report.

As a final note, the members of the SRI committee are lay individuals in the areas of pensions and investments, a very complex area. Despite a lack of expertise and training in this area, the committee members have taken on this formidable task of analyzing the SRI activities of the College Pension Plan and more specifically, the BC Investment Corporation.

2.0 Summary of Past Reports and Recommendations

2015 Interim SRI Report

The 2015 Interim Report outlined different approaches and definitions for responsible investing and a definition of ESG. It compared BCI's approach to that of the FPSE Defense Fund and noted a sharp contrast in those policies.

It noted that the College Pension Plan's Responsible Investing (RI) policies are found in the Statement of Investment Policies and Procedures (SIPP) which is in turn influenced by the plan's trustees and their membership. The pooled nature of the investment funds would exert some influence on the SIPP as it would create some challenges if the College plan was different from the others. Therefore, the decisions made by BCI drive this process and the College Pension Plan must work in partnership with the other plans in coordinating changes.

The College Pension Plan's RI polices are found in the Plan's Statement of Investment Policies and Procedures (SIPP). The relevant sections of the SIPP can be found in Appendix A of that report. The SIPP lays out core beliefs of the Plan provides BCIMC with high level guidance on RI investing.

Key elements of the SIPP include:

- A belief that engagement is more effective than divestment
- A belief that ESG issues affect the long term performance of companies.
- Support for the UN Principles of Responsible Investment
- A requirement that BCI advocate for good corporate governance and address environmental, social, and governance (ESG) issues to the extent those issues influence risk and return for the pension fund.

The SIPP does contain one negative screen; companies whose principle source of revenue is related to armaments. (The Plan also does not invest in companies which manufacture land mines and cluster bombs. However, that rule is a requirement of Federal legislation rather than a specifically articulated screen.) (2015 Interim Report)

2016 First SRI Report

The 2016 first triannual report dealt with the following items:

- An overview of the major SRI initiatives undertaken by the College Pension Plan
- An overview of "Best Practices" including a discussion of divestment and impact investing
- An assessment of the College Pension Plan's RI strategy
- Identification of RI "worst offenders" among the Plan's investment portfolio
- Recommendations for consideration by the Pension Advisory Committee

There seems to be a consensus among investors and asset owners that ESG analysis, voting of shares, and direct engagement are the cornerstones of a good RI practice. This is reflected in foundational documents such as the UNPRI Principles of Responsible Investment which provide clear direction to the investment community on the issue of responsible investment. The vast majority of large-scale institutional investors use an ESG/active engagement approach as their major RI strategy. The committee included a glossary of literature which addresses the issue of best practice in RI. The literature supported the comments made above.

Fiduciary duty is a key consideration in responsible investment. Over the last twenty years, asset owners have developed a broader view of fiduciary duty. In the past this duty was seen as obligating asset owners to impose fairly narrow limits on the types of factors that could be considered in investment decisions. Asset owners were expected to limit their considerations strictly to financial factors; ESG issues were never factored into investment decisions. This is in sharp contrast to current views.

Today, fiduciary duty is generally understood to include a broad view of all factors that may affect value and returns over the long term, including non-economic factors such as environmental impact, human rights practices, and so on. There is a consensus among large scale investors and asset owners that it is not only appropriate, but necessary to consider ESG issues when making investment decisions. Investors and asset owners also believe that fiduciaries have an obligation to take a more active role with their investments to improve the ESG performance of investments because, over time, those actions should improve returns.

3.0 Divestment Revisited

The 2016 report tackled the question of divestment by examining some other large international plans that have followed that path. The report concluded that:

> A rigorous application of ESG criteria should meet some of the goals of divestment campaigns simply on the fact that those investments will have more risk associated with them which will lead to operational decisions by investors to reduce or eliminate exposure to those assets. (2016 SRI Report)

It is worth revisiting this, because many plan members are concerned about the role their College Pension Plan investments play in the current environmental crisis, and how their investments socially impact the developing world. Secondly, there are some foundational beliefs to the idea of using ESG as the tool for addressing these concerns which should be identified.

Divestment began in the 1960's with the anti apartheid campaigns against the government of South Africa. Since then there have been several less successful movements to divest such as, tobacco, Israel, the Sudan, guns, and fast food.

Fossil fuel divestment is currently the most active campaign, beginning in 2012 and making considerable progress, it recently passed the 1110th institution to announce their withdrawal from fossil fuel investments. These divested institutions have combined assets of over 11 trillion dollars. *: https://cleantechnica.com/2020/01/02/2019-divestment-year-in-review/.*

2019 also saw a couple of significant and symbolic institutions deciding to divest. The central bank of Sweden dumped Australian bonds over high emissions[1]. The same bank made the choice to divest from Alberta for the same reason [2]. The UK Parliament also took the first steps for the public pension fund to divest from fossil fuel[3].

While not technically a straight up divestment, the EU's investment bank decided late in 2019 to stop funding the fossil fuel industry by 2021[4].

Owning fossil fuel companies have also started not to be good investment, as shown for instance by the US$90 billion in estimated losses suffered by BlackRock, of which 75% were from four companies: Exxon Mobile, Chevron, Royal Dutch Shell and BP[5]. Similarly, a report from Toronto-based firm Corporate Knights showed that pensions funds lost over US$19 billion by not divesting from oil, coal and gas[6].

[1] https://www.theguardian.com/environment/2019/nov/15/swedens-central-bank-dumps-australian-bonds-over-high-emissions
[2] https://thetyee.ca/News/2019/12/03/Sweden-Central-Bank-Divest-Alberta/
[3] https://www.theguardian.com/environment/2019/apr/09/parliament-pension-fund-fossil-fuel-divestment-climate-change
[4] https://www.bbc.com/news/business-50427873
[5] https://cleantechnica.com/2020/01/02/2019-divestment-year-in-review/
[6] https://www.commondreams.org/newswire/2019/11/05/new-study-shows-oil-coal-and-gas-investments-drove-over-19-billion-losses-major

BCI has resisted joining this trend stating that "we need proof that divestment will work," and "80% of global oil production is state owned, divesting is just a transfer of ownership". (BCI presentation to PAC, Feb 23, 2019).

The following excerpts from articles help tell the story of divestment.

The deeper question, though, is whether divestment is making a dent in the fossil fuel industry. And there the answer is even clearer: this has become the deepest challenge yet to the companies that have kept us on the path to climate destruction.

At first we thought our biggest effect would be to rob fossil fuel companies of their social licence. Since their political lobbying power is above all what prevents governments taking serious action on global warming, that would have been worth the fight. And indeed academic research makes it clear that's happened – one study concluded that "liberal policy ideas (such as a carbon tax), which had previously been marginalised in the US debate, gained increased attention and legitimacy". That makes sense: most people don't have a coal mine or gas pipeline in their backyard, but everyone has – through their alma mater, their church, their local government – some connection to a large pot of money.

As time went on, though, it became clear that divestment was also squeezing the industry. Peabody, the world's biggest coal company, announced plans for bankruptcy in 2016; on the list of reasons for its problems, it counted the divestment movement, which was making it hard to raise capital. Indeed, just a few weeks ago analysts at that radical collective Goldman Sachs said the "divestment movement has been a key driver of the coal sector's 60% de-rating over the past five years".

*Now the contagion seems to be spreading to the oil and gas sector, where Shell announced earlier this year that divestment should be considered a "material risk" to its business. That's how oil companies across the world are treating it – in the US, petroleum producers have set up a website designed to discredit divestment and for a while had me under round-the-clock public surveillance. The pressure is not preventing anyone from acting: when Yale arrested 48 brave students who were occupying its investment offices last week, they left chanting: "We'll be back."*https://www.theguardian.com/commentisfree/2018/dec/16/divestment-fossil-fuel-industry-trillions-dollars-investments-carbon

For now, the fossil fuel industry is more powerful than the climate movement in traditional governmental settings, whether legislative or regulatory. Industry opposition has prevented the enactment of many legislative and regulatory proposals including carbon taxes, emission-trading schemes, and restrictions on extraction.

As government institutions have been unable to respond to the size, scope, and magnitude of the climate issue, divestment campaigns have found new avenues. The democratic impulse, like water, finds a way. Divestment campaigns have extended to corporate boardrooms debates that have been frustrated in the legislatures, courts, and administrative tribunals.

Yet these new venues— the boardrooms of corporations and investment trusts of the clients they service (trusts, pensions, and endowments)— can also frustrate divestment campaigners. Fossil fuel corporations and their allies have generally proven to be adept at deflecting outside challenges from shareholders. University investment trustees have issued strongly-worded rebukes to students and other activists. Only a corporate or investment board with a special interest in climate issues (such as Apple) or those subject to political pressures (like ExxonMobil) adopt climate change initiatives.

Most leaders of corporations and investment trustees express bewilderment at activist campaigns. This is understandable — they have not seen addressing climate policy as part of their job description or as part of an institutional mandate. However, leaders of corporations and investment funds must rise to the needs of changing times and guide their organizations during a moment of special historical importance.
http://ieefa.org/wp-content/uploads/2018/07/Divestment-from-Fossil-Fuels_The-Financial-Case_July-2018.pdf

On December 12, May Boeve, executive director of *350.org*, seemed uncertain that diplomats to the COP24 would find common ground.

"When this movement started in 2012, we aimed to catalyse a truly global shift in public attitudes to the fossil fuel industry, and people's willingness to challenge the institutions that financially support it. While diplomats at the UN climate talks are having a hard time making progress, our movement has changed how society perceives the role of fossil fuel corporations and is actively keeping fossil fuels in the ground."
https://cleantechnica.com/2018/12/27/cleantechnica-divestment-year-in-review-2018/

Considerations for Institutional Investors around Divestment

Fiduciary duty
When considering divestment, the traditional stumbling block for a pension plan is its fiduciary duty to members, says Andrew Sweeney, vice-president and portfolio manager at Phillips, Hager & North Investment Management Ltd. "Fiduciary duty . . . weighs so heavily on people's minds when it comes to the question of divestment. For a pension plan, more so than other clients, the first real question is, 'Can we divest? And is that consistent with our fiduciary duty or not?' That's the first fork in the road."

In Numbers
In 2018, nearly ***1,000*** *global institutional investors with* ***US$6.4 trillion*** *in assets committed to divest from fossil fuels. This is up from* ***US$52 billion*** *four years ago, an increase of* ***11,900%****. Pledges span* ***37*** *countries, with* ***66%*** *of divesting institutions and individuals based outside the U.S.*

Fossil-free passive funds, mutual funds and exchange-traded funds are also growing rapidly. Currently, there are more than ***150*** *low-carbon ETFs traded in the U.S. Source: Arabella Advisors report, 2018*

Norway's heavy exposure to fossil fuel investments is one scenario that exemplifies the argument for divestment from a fiduciary perspective. The issue came to light in 2017 when the country's central bank sent an analysis to its minister of finance recommending Norway's Government Pension Fund Global's benchmark index divest from oil stocks. The analysis showed the government's finances, including its pension investments, were twice as exposed to oil price risk than they would be in a broad, global index.

"People have made hay about Norway's sovereign wealth fund divesting from coal assets and from some, but not all, oil assets. But Norway is a unique situation," says Sweeney. "This is a country that has five million people that produce four million barrels of oil a day, and they have a trillion that they've saved. So from a pure, rational thinking of the overall balance sheet, of course they're divesting from oil."

This type of logical risk assessment demonstrates where divestment, and ESG considerations more broadly, is headed, says Sweeney. He notes socially responsible investing used to openly include a moralistic element, but the risk aspect has started to dominate the conversation because it can hold water from a fiduciary perspective.

Certain institutional investors are looking to make a statement, an impact or both, by divesting from or decreasing their exposure to carbon intensive assets, says Sweeney. But the fiduciary issues loom large for pension plans, making many hesitant to openly divest from any given sector.

Butting out

However, there are those that dare. The OPSEU Pension Trust divested from the tobacco industry in 2017. At the time, Hugh O'Reilly, the trust's president and chief executive officer, noted corporate engagement is typically the best way to bring about positive change, but tobacco products were a special case. "They only cause harm," he said in a press release.

Since then, several other pension plans have either gone tobacco-free or announced their intention to do so, including the Ontario Teachers' Pension Plan and the Dutch pension fund ABP. The California Public Employees' Retirement System has restrictions on tobacco that date back to 2000 and have become more intensive over the years.

An analysis of tobacco divestment dating from that year demonstrates how little the conversation has changed in almost two decades. "Socially screened investments by pension funds and endowments, like other investments they make, are subject to fiduciary standards," wrote the analysis' authors, Washington D.C.-based attorneys Carol Calhoun and G. Daniel Miller. "All judgments about the prudence of fiduciary actions are to be made from the perspective of the time the fiduciaries made the decisions, not in hindsight.

"The relevant courts and agencies have long recognized that estimating risks and returns is imperfect. Provided that the fiduciaries exercise both the substantive and the procedural

component of their fiduciary duties, a court is likely to give deference to their investment decisions, even if those decisions later prove to have been less than optimal."

In 2018, the CalPERS' investment consultant, Wilshire Associates Inc., penned its own report, which found the pension fund lost about US$3 billion in investment gains between 2001 and 2014 by divesting from tobacco.

But Calhoun and Miller's analysis also highlighted decades worth of red flags, such as gradually stricter public policy in the U.S. around tobacco use, which were arguably evidence of risk for the sector. And after examining its restrictions following the report, the CalPERS decided to enhance its tobacco restrictions.

ESG risk
Another stumbling block for ESG is that framing it as a risk mitigation strategy leaves a key detail out of the narrative, according to Paul Bevin, general manager of investments at New Zealand's Government Superannuation Fund Authority. If the ESG risk factor associated with an asset is properly priced in, the asset's value will be under pressure, he notes. As a result, it will be attractively priced, making it logical for a long-term investor to own it rather than avoid it, as long as the potential risk-to-reward ratio is decently favourable.

But this presents a challenge for a pension fund with a fiduciary duty to its members to justify divesting from an asset on the basis of any ESG consideration, says Bevin, noting if investors really want to do good in the world, they need to find a way to be upfront about it.

"You should avoid investing in companies that cause environmental damage, because they cause environmental damage, not because you think it will improve your performance," he says. "Just accept there might be a cost in doing that."

However, there's no guarantee a given ESG risk is actually priced into an asset, adds Bevin. "People are concerned about climate change, and I think they, maybe rightly, fear a lot of that risk is not priced into the market. We don't know that for sure, but there must be some pricing of climate risk going on. There must be some people who are attaching a risk to coal producers, fossil fuel producers, and that's why they're selling it. That implies that there would be some impact on the valuation of those businesses.

*"So to say, 'We're going to reduce the carbon footprint of our portfolio and that'll make us money,' — I wouldn't be so sure about that. You might want to do it anyway, but the claim it will make you money is very spurious. We don't know about that. People are paying high prices to invest in alternative energy production, for example. Whether that's profitable or not is still an open question."*https://www.benefitscanada.com/investments/strategies/what-should-institutional-investors-be-considering-around-divestment-127023

One argument for divestment is that it will drive down the share price.

However, if the aim of divestment campaigns is to reduce companies' profitability by directly reducing their share prices, then these campaigns are misguided. An example: suppose that the market price for a share in ExxonMobil is ten dollars, and that, as a result of a divestment *campaign, a university decides to divest from ExxonMobil, and it sells the shares for nine dollars each. What happens then?*

Well, what happens is that someone who doesn't have ethical concerns will snap up the bargain. They'll buy the shares for nine dollars apiece, and then sell them for ten dollars to one of the other thousands of investors who don't share the university's moral scruples. The market price stays the same; the company loses no money and notices no difference. As long as there are economic incentives to invest in a certain stock, there will be individuals and groups—most of whom are not under any pressure to act in a socially responsible way—willing to jump on the opportunity. These people will undo the good that socially conscious investors are trying to do.

This means that divestment risks being harmful. Several studies have shown that, because of the pressure against investing in morally dubious companies, "unethical" investments (sometimes called "sin stocks") produce higher financial returns for the investor than their "ethical" alternatives. The economists Harrison Hong and Marcin Kacperczyk found that sin stocks outperform other stocks by 2.5 per cent per year. This has even resulted in a niche industry: for instance, the Barrier Fund, formerly known as the Vice Fund, is a "sin-vestor" mutual fund that exclusively invests in companies that are significantly involved in alcohol, tobacco, gambling, or defense. It has beaten the S. & P. 500 by an average of nearly two percentage points per year since 2002. By divesting from unethical companies, "ethical" investors may effectively transfer money to opportunists like the Barrier Fund, who will likely spend it less responsibly than their "ethical" counterparts. *https://www.newyorker.com/business/currency/does-divestment-work*

This argument has been a cornerstone of the PRI and BCI principle that active ownership is the best approach. Without ownership, there is no opportunity for engagement and therefore no way to influence change. As pointed out earlier on page 6, when a pool of investors act in unison around divestment, there is a lot of power being exercised and therefore demonstrates that there are cases where divestment can have an effect. The bankruptcy of Peabody, the world's largest coal company, is cited as an example.

There is an important difference, therefore, between divestment and product boycotts. If a group of people believes that the Coca-Cola Company is harming the world, whereas PepsiCo isn't, and accordingly switch their consumption from Coke to Pepsi, the Coca-Cola Company is harmed. Their sales decrease, and they make less profit. By contrast, if the same group of people stop investing in Coca-Cola, and invest instead in Pepsi, things will quickly balance out, and neither company will notice much difference. As soon as an ethical investor sells a share, a neutral or unethical investor will buy it.

Studies of divestment campaigns in other industries, such as weapons, gambling, pornography, and tobacco, suggest that they have little or no direct impact on share prices. For example, the author of a study on divestment from oil companies in Sudan wrote, "Thanks to China and a trio of Asian national oil companies, oil still flows in Sudan." The divestment campaign served to benefit certain unethical shareholders while failing to alter the price of the stock.
https://www.newyorker.com/business/currency/does-divestment-work

In conclusion, divestment is really a conversation about values, and whether or not it is okay to make money from activities that are harmful to people or the planet. We believe that most people have a line between what is acceptable and what is not. Our challenge is to figure out where that line is, and to take a stand on our values.

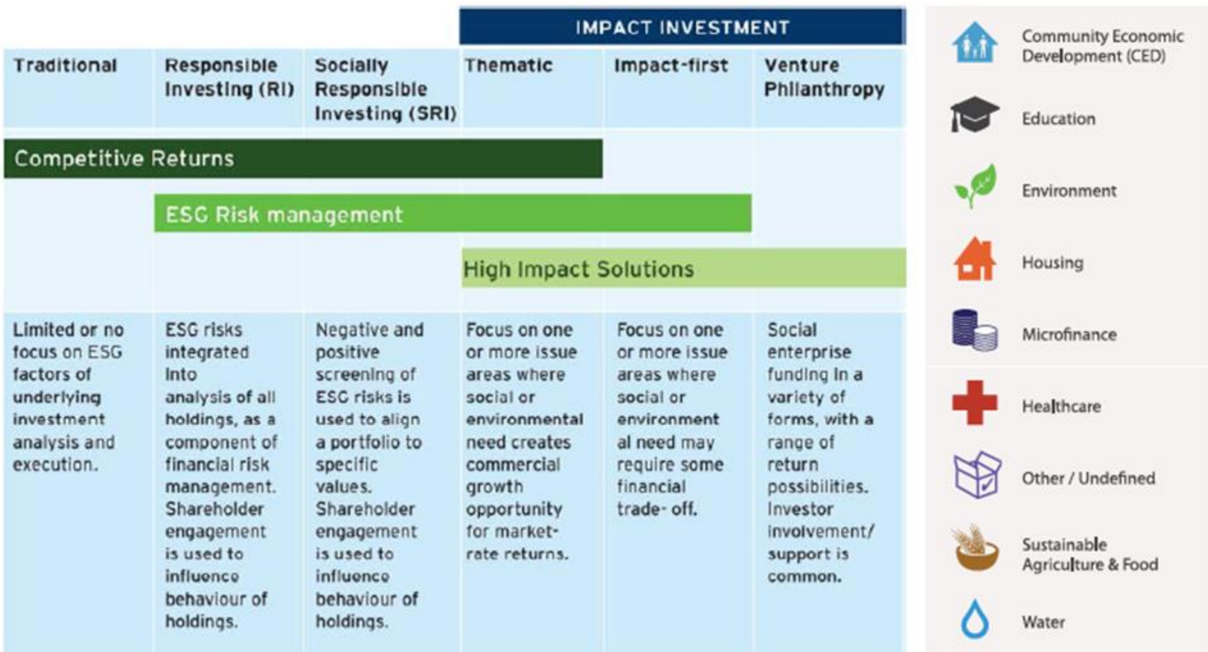
Divestment campaigns are really about changing the public's perception about what is acceptable in our society, and making it possible for there to be leadership from government and industry.

BCI needs to take a stronger position on its values around investments that have broad based concerns from society. Fossil fuels, tobacco, third world mining operations, and armaments are frequently cited as suitable candidates.

A more effective approach is to approach this issue from the perspective of "Decarbonization" of the portfolio which leads into discussions about how much, strategies, timelines, and where to find alternative investments.

4.0 The Language of Socially Responsible Investing (SRI) and Responsible Investing (RI)

Previous reports have examined the question of what socially responsible investing is, by describing the spectrum of approaches that are used.



The interim report of 2015 went on to describe the following:

> ESG is short hand for Environmental, Social and Governance. ESG is a specific approach to responsible investing often used by institutional investors. In this model, investors assess the performance of assets against the three broad categories of environment, social and governance factors. Based on the assessment of the asset against ESG factors, the investor will then engage with the company or the asset in order to improve performance under the appropriate criteria. For example, an investor may choose to upgrade a real estate holding to be more environmentally efficient or the investor may engage with a company to change labor practices. Often, institutional investors will work together to ensure change in corporate behavior. The underlying assumption is that assets will outperform financially over time when investors control risks and improve performance related to environmental, social, and governance factors.
>
> The chart below demonstrates the more common factors accounted for in ESG investing.

The purpose of revisiting this earlier work is to pay attention to the language used, as each of these different terms and approaches have different philosophical foundations and thus give rise to different decisions and strategies.

This is an important point because once the definition of SRI or RI is articulated, then the criteria for measuring whether or not we have obtained it has been set.

Those who have studied political science or philosophy will recognize some elements of a Gramsci definition of hegemony ("predominance by consent") in this statement. Hegemony is a condition in which a fundamental class exercises a political, intellectual, and moral role of leadership within a hegemonic system cemented by a common world-view or "organic ideology."

The FPSE motion is to review the "socially responsible investing practices of the College Pension Plan" while BCI uses the terms "Responsible Investing".

> *As a long-term investor, responsible investing is an essential part of who we are and what we do. It's also important to our clients. Our primary mandate is to grow the value of our clients' funds. Assessing and managing investment risk is an integral part of how we meet our responsibility.*
>
> *Our clients share our belief that companies that employ robust environmental, social, and governance (ESG) practices are better positioned to generate long-term value than similar companies with less-favorable practices. When investors take ESG matters into account, they can better understand, manage, and mitigate risks associated with long-term investments.*
>
> *As a long-term investor, BCI brings more than capital to the companies in our portfolios. Responsible investing is integrated into our investment analysis and decision-making processes. Once invested, we're active owners. Our investment outlook, combined with our philosophy of active ownership, allows for the alignment of interests with the companies in which we invest – this alignment is an*

essential part of responsible investing. We consider good corporate governance to be the over-arching framework for effective company management. (BCI website, retrieved Oct 10, 2019)

The FPSE motion which gives rise to this review does not provide a definition of socially responsible investing. Some definitions below highlight the differences.

Socially responsible investing is an investment approach that considers both the financial return and the social good that a company generates. By selecting companies that improve our communities and our environment, and by excluding companies that have a negative impact, we can offer investments that contribute to a better financial future for you and a better world for everyone. VanCity, retrieved Oct 10, 2019

Also known as values-based or ethical investing. It allows investors to align personal values with their investment choices.

SRI strategies can apply positive or negative screens to include or exclude companies from the investment universe based on ESG criteria. RBC Global Asset Management, retrieved Oct 10, 2019

In general, definitions of responsible investing (RI) use terminology like "will take into consideration ESG factors while SRI definitions are much clearer that there is a linkage between the investor's values to make positive choices and the investment decisions that are made.

The following outlines BCI's perspective on the differences between RI and SRI.

Mr. Field advised that the difference between RI and SRI is an evolution of terminology. SRI was the genesis of the responsible investing focus. The industry norm has become RI and ESG whereas SRI incorporates values in its decision-making process. Impact investing is not necessarily about maximizing return. Rather, impact investing has a specific objective tied to values which may not allow bcIMC to meet its fiduciary duty to invest in the best financial interests of the members. Its long term strategy is to look at global factors and themes … want to ensure it can generate a similar or better return by focusing on longer term themes and getting ahead of issues such as climate change. Focus is on renewable investments which is a priority for bcIMC. The hope is that bcIMC will be able to provide an opinion to its clients shortly.
Robert Field, BCI Director of Client Services, Pension Advisory Committee Minutes Feb 25, 2017

This brings the discussion right back to the issue of values in investing and the interpretation of "investing in the best financial interests" of the plan members. If the word "values" is used, then it can argued that values have no place in making investment decisions. For example:

In response to a question about investing in tobacco as an example of a socially irresponsible product in which bcIMC continues to invest, Mr. Field responded that although not necessarily right, tobacco is a legal product and activity. The challenge for trustees is that tobacco is a good *investment and the trustees' fiduciary responsibility is to act in the best financial interests of the plan members.*

In response to a question as to why bcIMC invests in companies that actively campaign against defined benefit plans and the existence of unions, he responded that those issues are part of the evolution of the standard of care but in the interim, bcIMC can incorporate those factors in its decision-making. Trustee Cowan advised that the SHARE paper on this issue has been reviewed by the Trustees which it has now been distributed to the trustees of the other plans as well as Interplan with the intention of developing policy with which to instruct bcIMC.
Robert Field, BCI Director of Client Services, Pension Advisory Committee Minutes Feb 25, 2017

There is no such thing as investing in the absence of values. The value may be the maximum financial return or it may be the best return obtainable while considering the impact of ESG factors, but they are still values.

A more relevant approach may be to approach this issue from the perspective of leadership and/or a relevant values framework, as outlined in the next section.

5.0 BCI Presentation to the FPSE Pension Advisory Committee Feb 22, 2019
In attendance on behalf of the BCI were Jennifer Coulson, Vice President, ESG, Public Markets; Lynn MacAdam, Senior Manager, Client Relations, Corporate & Investor Relations; and David Currie, Director, Client Communications, Corporate & Investor Relations.

This was an excellent presentation with many great questions. Jennifer outlined the current approaches BCI is taking. The most valuable portion of the meeting was the final 20 minute discussion where there was an in depth discussion on the role of leadership in addressing global environmental and social challenges.

An enduring question is whether BCI ought to provide more leadership with regard to such issues as human rights violations and climate change. For instance, while other major pension plans have made specific commitments with regard to reducing the carbon footprint of their investments (e.g. Caisse de Depot) BCI is "not comfortable with a hard target" (BCI presentation to PAC, Feb 23, 2019). BCI also refers to a failure of government or to the unwillingness of society to made fundamental changes (Appendix 1: BCI PAC presentation, Feb 23, 2019).

A striking example of this passivity is to be found in BCI's Climate Action Plan and Approach to the TCFD's Recommendations (2018). The report states the following:

Using client long-term strategic asset allocation targets, we found that the two-and four-degree climate scenarios would create an expected drag of 0.14 % and 0.16% in average annual returns respectively over the 15 year forecast horizon, relative to the base case scenario (p.15)

No mention is made of what it will be like for retirees to live in a world that has experienced 2-4 degrees of warming, yet a recent IPCC report (2019) indicates that the impact on human quality of life will be catastrophic.

A relevant values framework to help guide decision-making that factors in climate risk is necessary for intergenerational justice. Intergenerational justice refers to the obligation that the current generation has to manage natural resources and the environment in a manner that is just for future generations (Henderson, 2011, Rawls, 2001). This means that the current generation has a duty pass on to future generations a natural environment of sufficient quality to ensure the maintenance of just institutions (e.g. health care, education) and equality of opportunity for a life that any reasonable person might enjoy.[7]

Intergenerational justice may seem like an abstract issue in relation to pension investments, but investment decisions made today may lead to a serious future erosion of the natural environment, which will in turn affect future pensioners' access to just institutions and a reasonable quality of life. The former director of SHARE Peter Chapman has referred to this concern for intergenerational justice as a concern for 'even handedness'.

[7] Henderson, G. "Rawls and Sustainable Development" JSDLP : Volume 7: Issue 1
Rawls, J. Justice As Fairness (Cambridge: Belknap Press, 2001)

In his presentation to PAC October 21st, 2017, Peter Chapmen pointed out that the age range of actual or potential beneficiaries to the pension plan extends from those in their late twenties to those in their eighties or nineties. The concept of even-handedness would call on BCI to treat younger and older members of our pension plan equitably. BCI has a duty to ensure that the Plan can not only make regular payments to a retired member in her seventies now, but that it will be able to make regular payments to an active member in her twenties 60 years from now, *in a world that has not been catastrophically degraded by climate change*! That is, in a world where she can still enjoy access to just institutions and a reasonable quality of life.

This concern for intergenerational justice suggests that BCI's conception of 'risk' may need to be adjusted. For instance, BCI uses a 15 year forecast horizon for yearly returns. We suggest that this horizon is to near to adequately capture the negative, long-term effects of our investments on the environment. Secondly, we recommend that risks to the quality of life of future pensioners be factored into risk assessments. These risks could be made specific. For example, what are the risks in terms of our society's ability to maintain just institutions, or to having equal access to a reasonable quality of life? These risks are usually referred to as 'externalities', but they will directly impact future pensioners. Out of fairness to future pensioners, BCI has a duty to factor in these risks in its investment decisions and to directly act to mitigate these risks. One concrete example of how to do this would be to set specific targets for reducing its carbon footprint.

Recommendations

1. That BCI take a more active, leadership role in addressing climate change

2. That BCI set specific targets for reducing its carbon footprint

3. That BCI extend its forecast horizon in order to better capture the potential risk of its investments to the environment

4. That BCI as a matter of intergenerational justice, factor into its risk assessments risks to the maintenance of just institutions and access to a reasonable quality of life that will be borne by future pensioners.

6.0 Interplan Communication and Coordination Challenges

BCI manages $153.4 billion dollars in assets in total for 11 public sector pension plans plus various pools of money for government bodies and public trusts. Pension Funds consist of 85% of the assets and the College Pension Fund total $4.6 billion. The pooled nature of the College Pension Plan funds means that coordination with other Plans is necessary to effect overall changes to practices.

The College, Municipal, Teachers, and Public Service plans all participate in the Interplan Investment Committee. Although each plan elects specific trustees to the committee, all trustees are allowed to attend and participate. The committee is a forum for plans to receive information from BCI, receive education about investment issues, and to make recommendations on investment related issues back to the boards. This allows the four plans to have a reasonably coordinated approach to investment which lowers management costs significantly. Nonetheless, each plan maintains complete autonomy over asset mix and investment philosophy.

7.0 College Pension Plan Statement of Investment Policies and Procedures (SIPP)

The College Pension Plan Statement of Investment Policy and Procedures is the overall document that specially outlines to BCI the asset allocation and investments beliefs of the trustees. In many ways, there is a lot of similarity between this document and BCI's approach due to the pooled nature of the funds. As pointed out earlier, it would be difficult for any single plan to be different from the rest of the pool and the small size of the College Plan a further difficulty.

Policy asset mix and policy ranges for the Fund, effective July 1, 2017 are:

Asset Class[1]	Policy Range		Policy Asset Mix
	Minimum	Maximum	
Short Term	0	10	2
Mortgages	0	10	5
Bonds	8	25	13
Fixed Income Sub-total	10	35	20
Canadian Equities	5	17	10
Global Equities[2]	17	35	22
Emerging Markets[3]	5	15	10
Public Equity Sub-total	32	57	42
Real Estate[4]	8	21	16
Real Estate Sub-total	8	21	16
Private Equity [4,5]	3	15	10
Infrastructure and Renewable Resources[4,5]	7	17	12
Sub-total	10	30	22
Other[6]	0	5	0

1 *Refer to Participating Pooled Funds table (Appendix A) for asset classification by pool.*
2 *Global equities may include exposure to Canada and emerging markets.*
3 *Emerging market equities may include exposure to developed markets.*
4 *Due to the illiquid nature of these assets, the upper limit may be exceeded on a temporary basis. BCI will use cashflow to rebalance as soon as is practical.*
5 *In addition to equity, Private Equity investments may include debt (other than debt described in 5.3.4).*
6 *"Other" includes strategies or investments specifically approved by the Board that do not correspond to the listed asset classes. Refer to Appendix A.*

The asset classes above are all pooled. This means that each plan that chooses to invest in a particular class owns a slice of the overall pool for that asset class. Investments can be further refined to specific investment opportunities or vehicles which are also pooled.

The pool structure and the strong investment coordination between the plans provides tangible benefits in terms of investment management costs. However, it does pose challenges if a single board decides to take a fundamentally different approach. For example, if a plan decided to divest from fossil fuels, there would be a significant impact on some of the asset classes and the pool structure. This would be most pronounced in public equities. New pools would have to be created and all investment management costs for those new pools would fall on the divesting plan.

The College Pension Plan SIPP uses similar language "Responsible Investing" rather than "Socially Responsible Investing" and outlines the relationship between the College Pension Plan board and BCI.

> ***Section 10 Responsible Investing and Voting Rights***
> *10.1 At all times, this policy will be conducted within the framework of fiduciary responsibility. It will therefore be implemented in a manner which does not interfere with the efficient investment of the Fund to achieve investment return objectives, which are in the best financial interests of the Plan's current and future beneficiaries.*
>
> *10.2 Pursuant to the Board's investment beliefs and subject to Section 10.1, favourable consideration is to be given by BCI and its investment managers to investment opportunities in corporations that meet or exceed all environmental regulations and aspire to reduce the impact of their operations on the environment, apply best practices for corporate governance, adopt good standards of safety and employee welfare, and are responsible in their operations by effectively managing relationships with suppliers, customers and communities.*
>
> *10.3 In keeping with the Board's fiduciary responsibilities and framework, the Board believes that environmental, social, and corporate governance ("ESG") issues can affect investment performance to varying degrees across companies, sectors, regions, asset classes and through time. In this regard, the Board supports the UN-led Principles for Responsible Investment, introduced in April 2006 (http://www.unpri.org/principles/). By applying these principles, the Board recognizes that effective research, analysis and evaluation of ESG issues is a fundamental part of assessing the value and performance of an investment over the long term.*
>
> *10.4 It is recognized that BCI is a signatory to the UN-led Principles for Responsible Investing, and as such, is expected to follow the organization's principles. It is also recognized that BCI is a member of the Canadian Coalition for Good Governance and, as such, is expected to promote governance practices consistent with the Coalition's policies and best practices.*
>
> *10.5The Board delegates its voting rights to BCI and instructs BC Ito act in the best financial interests of the Fund. In addition to proxy voting, BCI uses shareholder engagement (which includes constructive dialogue and all regulatory submissions) to encourage companies to focus on long-term value creation by effectively managing ESG risks that may emerge over time and materially affect the valuation of the company and/or asset. As an active and engaged investor, BCI expects and encourages the companies within its portfolio to comply with the laws of the jurisdiction within which they operate; aspire to align their practices and adhere to international standards; apply best practices for corporate governance and be transparent about their practices, risks, and opportunities; meet all environmental regulations and seek to reduce their operational*

impact on the environment; and, be responsible in their operations, adopt good standards of occupational health & safety, and effectively manage stakeholder relationships. BCI's engagement activities are based on strategic ESG priorities and, as a result, ESG matters are addressed to the extent that they influence risk and return.

10.6 At least once per year, BCI will provide the Board with the following: copies of its corporate governance guidelines;▪updates on BCI's views with respect to ESG issues; and details regarding any changes that were made to its shareholder engagement guidelines or proxy voting guidelines.

10. 7 At least once per year, the Board will review BCI's voting record and shareholder initiatives.

Appendix C of the SIPP contains the College Pension Plan's Statement of Investment Beliefs.

13. The Board believes that companies that do a good job of managing environmental, social and governance (ESG) matters have less financial risk and perform better financially over the longer term. ESG factors may affect investment performance over time and to varying degrees across companies, sectors, regions and asset classes. BCI expects companies to be responsible in their operations, adopt good standards of occupational health & safety, and effectively manage stakeholder relationships.

14. Shareholder engagement is a more effective tool for seeking to initiate change and influence corporate practices than divesting of investments

The statement of investment beliefs is one of the most powerful mechanisms pension trustees have for influencing the direction of investments with respect to ESG matters, climate change, and risk. It also directly related to fiduciary duty as a well-crafted statement provides a legal foundation for undertaking or not taking certain actions. For example, UBC has embarked on a path of divestment from fossil fuels but sought legal advice with respect to their role of fiduciary duty. The legal opinion allowing them to do this rested on the language of their Statement of Investment Beliefs. (personal communication with Yale Loh, UBC University Treasurer, Feb 19, 2020)

It is recommended that College Pension Plan trustees review the SIPP and statement of investment beliefs. Our trustees already have this on their agenda for the March 2020 meeting and are working with the Interplan Investment Committee to coordinate with the plan partners.

8.0 Environmental, Social, and Governance (ESG) as Key Performance Indicators
BCI believes ESG engagement is the appropriate mechanism for addressing concerns with companies.

Ownership also gives an investor the right to raise concerns and encourage positive changes. Therefore, BCI believes

- *the power of share ownership lies in engagement, rather than divestment;*
- *we act in our clients' best financial interests; and*
- *we believe that companies that employ robust ESG practices are better positioned to generate long-term value for investors.*

It is our fiduciary obligation to act in our clients' best financial interests to generate investment returns. Therefore, BCI aims to manage the long-term risks and opportunities that ESG matters present, both now and into the future. These risks may include stricter regulation, lawsuits, loss of consumer trust and sales, damage to reputation, negative impact on credit rating, higher operational costs or even, in some circumstances, the loss of an ability to operate.
https://www.bci.ca/wp-content/uploads/2018/02/bci-esgengagement.pdf

BCI owns shares in more than 3500 companies directly and even more through index funds. Therefore, they must prioritize their engagement priorities according to the following criteria.

The choice of priorities for our engagement program is based on our assessment of the following:

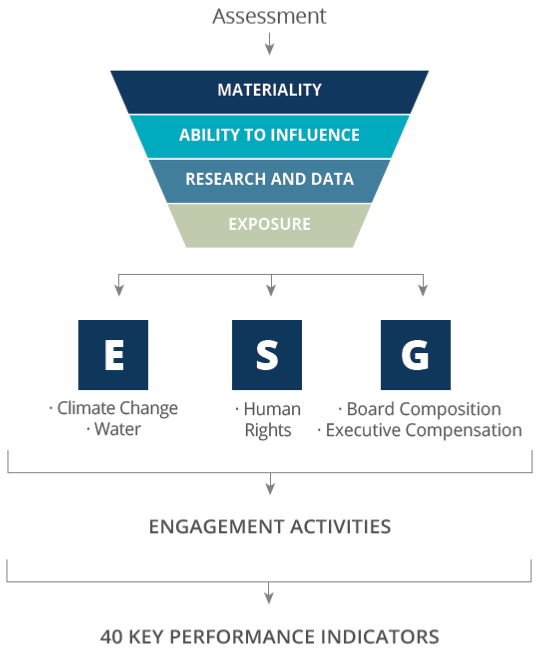
• ***Materiality:*** *The companies BCI invests in face a variety of risks. We focus our efforts on ESG risks that are most significant or relevant to our investments and address those where we see the most positive outcome either in terms of mitigation or adding value.*

• ***Ability to Influence:*** *In order to maximize the effectiveness of engagement, we will tend to avoid allocating resources to addressing issues where there is little likelihood of success or where we are not able to have any influence. For example, while we do not support dual class share structures, there is little justification in engaging extensively on this issue due to the low likelihood that companies will voluntarily give up the control embedded in this structure. We will however explore opportunistic events to address these types of issues, such as including our views in comments to regulators or other standard setters. Our influence as a fixed income investor varies pre- or post-issuance, and whether the debt issue is public or private.*

• ***Research and Data:*** *BCI continually monitors expert sources of opinion, reviews academic research and gathers data to determine what emerging risks might be the most material going forward.• Exposure: We wish to engage on those issues that are most common or prevalent across our portfolio. This allows us to leverage research and have a wider impact. Therefore, we consider our country and sector level exposure when establishing our priorities.*

Based on our criteria, we have chosen three areas that we consider to be long-term, widespread business challenges and therefore, a natural fit for an investor with an investment horizon that stretches forward many decades. These are: climate change and water, human rights, and governance.

Other issues will be handled on a case-by-case basis as necessary to safeguard our clients' best financial interests.



https://www.bci.ca/wp-content/uploads/2018/02/bci-esgengagement.pdf

BCI collects and assess data for more than 40 KPIs, in seven categories, and current data sets for comparative purposes date back as far as 2011.

In response to a question about KPIs and SRIs, Mr. Field responded that bcIMC hopes KPIs will "demonstrate success" on responsible investing (RI) in order to address RI and ESG issues. The intention is to incorporate KPIs into the annual RI report.
Robert Field, BCI Director of Client Services, Pension Advisory Committee Minutes Feb 25, 2017

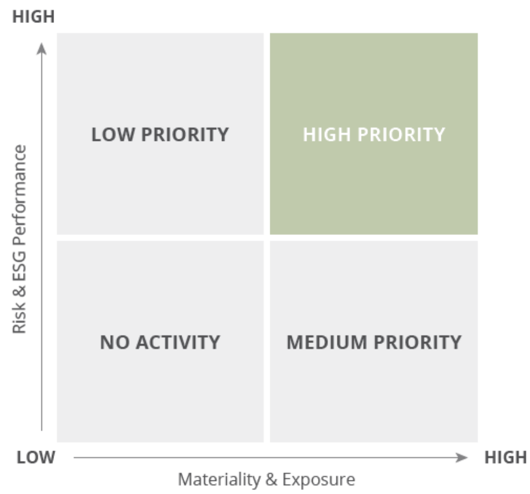
BCI KPI Categories

- Climate Change Disclosure
- Gender Diversity
- Human Rights in Extractive Sectors
- Executive Compensation in Canada
- Sustainable Stock Exchanges
- Board Independence in Japan
- Water Related Disclosure

The 40 KPI's are not listed in the 2019 BCI Report on ESG Engagement nor is any quantitative information provided on where the portfolio currently stands, or how it has evolved since this process has begun in 2011.

The implementation of ESG KPI's over recent years is commendable, and the next step is for BCI to provide more detailed information on how well they are being met.

ESG Coverage
BCI invests in over 3500 companies and is not able to engage with each company. An annual portfolio assessment is carried out to priorize their effects using the four sector grid shown below.



Their ESG report does not list how many of the 3500+ companies split amongst these categories, so it is unclear if the resources currently being dedicated to this area are sufficient.

ESG Scoring
While not mentioned in the BCI ESG report, a case study published on the UNPRI website outlines a case study of how BCI combined two separate analysis of a company from both the ESG and fundamental research branches. Mention is made of developing a weighted, risk adjusted ESG score specific to the sector in this example. It would be of value to know the number of companies that have been scored using this approach, how they have done overall, and if any progress and improvements can be tracked over time.
https://www.unpri.org/listed-equity/combining-analysis-from-dedicated-esg-and-fundamental-teams/727.article

ESG, Where is it at Today?
Portfolio managers and analysts are increasingly incorporating ESG factors in their investment analyses and processes. However, ESG integration remains in its relative infancy, with investors and analysts calling for more guidance on exactly "how" they can "do ESG" and integrate ESG data into their analysis
https://www.unpri.org/investor-tools/esg-integration-in-europe-the-middle-east-and-africa-markets-practices-and-data-/4190.article

The above report published March 18, 2019 nicely captures the current state of the practice of ESG and how well it is serving the purpose of addressing ESG concerns. The report's finding below summarize the effectiveness of ESG today.

1. *There is no "one best way" to do ESG integration and no "silver bullet" to ESG integration.*
2. *Governance is the ESG factor most investors are integrating into their process.*
3. *Environmental and social factors are gaining acceptance, but from a low base.*
4. *ESG integration is farther along in the equity world than in fixed income.*
5. *Portfolio managers and analysts are more frequently integrating ESG into the investment process, but rarely adjusting their models based on ESG data.*
6. *The main drivers of ESG integration are risk management and client demand.*
7. *The main barriers to ESG integration are a limited understanding of ESG issues and a lack of comparable ESG data.*
8. *Investors acknowledge that ESG data have come a long way, but advances in quality and comparability of data still have a long way to go.*
9. *It would be helpful for issuers and investors to agree upon a single ESG reporting standard that could streamline the data collection process and produce more quality data.*
10. *Many workshop participants were concerned that ESG mutual funds and ETFs offered to investors may be driven by marketing decisions and may not be true ESG investment products.*

Recommendations

1. BCI should publish the detailed list of the 40 KPI currently being used and provide an aggregate rating on how well each one is being met.

2. BCI needs to publish aggregate data on the number of companies engaged, the level of engagement, and the effectiveness of the effort.

3. The ESG report is focused on public equities. Private equity investments are now at 8.5% of managed assets and the intention is to continue growing this area. BCI needs to develop a mechanism for reporting on the ESG performance in this area.

4. BCI should report on how many companies they have been able to carry out an ESG analysis and some form of an aggregate score that tracks progress.

9.0 BCI as a Private Investor: Walking the Talk

Private equity investment has been a priority for BCI, offering a variety of benefits to the Pension Plans. Private equities tend to involve longer term investment. This is something BCI identifies as being beneficial and desirable for pension plans, which also have a long time horizon to consider. In the current College Pension Plan Statement of Investment Returns (SIPP) private investments are targeted at 10% with an allowable range of 3-15%.

From the BCI Corporate Annual Reports from 2015 to 2019 we see the following trend:

Year	Assets Under Management ($ Billion)	Private Equities (%)	Public Equities (%)
2015	123.6	4.8	49.5
2016	121.9	5.6	47.5
2017	135.5	5.8	48.3
2018	145.6	7.1	44.3
2019	153.4	8.5	40.5

BCI documents indicate that their overall goal is to attain a 50/50 investment split between private and public markets.

"Direct Ownership" – via private market investment – allows BCI to negotiate governance rights and secure positions on boards of directors in line with our increased equity ownership. As an active asset manager, we can use our positon as a shareholder and board director to influence the company's strategic direction, appoint executive management, and align operations and practices with our expectations – all with the view of driving capital value and strengthening cash flows. Active ownership depends on a robust approach to managing risk. We seek to reduce risk and capture value by integrating ESG factors over the lifetime of the investment.
https://www.bci.ca/wp-content/uploads/2019/04/responsible-investing-annual-report-2018.pdf

Infrastructure & Renewable Resource
Direct investments account for approximately 82 per cent of our portfolio and are made with a very long-term outlook — sometimes up to 20 years.

We focus on direct investments with significant equity positions and actively manage assets by exercising our governance rights through board representation. Our active ownership ensures effective consideration of ESG factors.

As ESG issues often present material, non-traditional risk, it is important to identify these risks at an early stage in an investment so that investment returns are optimized from a risk-adjusted perspective.

In 2017, we prioritized responsible investing as a focus area and began formalizing our approach for our direct investments. We held E, S, and G working groups to define the framework that would work best for the program and our clients. Wanting to align with industry best practices, we spoke with advisors and conducted a comprehensive peer review and analysis.

In 2018, BCI developed a framework and tools that integrate ESG analysis across the lifecycle of an investment. From the early sourcing stage through to asset management and active ownership, the goal is to proactively add value for clients through the application of ESG principles.

Our industry is data and results driven — quality information allows for more informed investment decisions. As ESG matters can impact long-term returns, it is important to BCI, our clients, and their beneficiaries that we have early prioritization and sustained access to information that helps us to identify and mitigate ESG risk.
https://www.bci.ca/wp-content/uploads/2019/04/responsible-investing-annual-report-2018.pdf

These excerpts from the 2018 Responsible Investing Report indicate that ESG integration is still in the early stages of implementation but represents a major improvement from our last report of 4 years ago.

While each year BCI publishes an annual responsible investment report, the current overview report of their approach to RI and in particular its application to private equity is from 2015. *"An Overview of BCI's Approach to Responsible Investing2015 | Protecting the Long-Term Value of our Clients' Funds"* https://www.bci.ca/wp-content/uploads/2018/02/responsibleinvestingoverview.pdf

Given the significant evolution of the application of ESG principles, this report is in need of updating and in particular with the increasing focus on private equity, more current information on the application of ESG within the private equity area is needed.

Secondly, the statement "very long term" being viewed as up to 20 years needs to be reframed as mid-term. As stated earlier in the report, a quote from Peter Chapman indicated that time frames of up to 60 years are more appropriately considered "long term"

10.0 Changes made by BCI over the Past 4 Years

Over the last four years, BCI continued to expand its responsible investment capacity. As part of its overall strategic plan, BCI is improving its capacity to analyze and manage long term investment risks. ESG factors play an important part in that analysis. The key focus points for ESG consideration are Board composition, executive compensation, human rights, climate change, and water.

By far, the two largest developments for responsible investing at BCI over the last four years are the development of their capacity to analyze investment risk including investment risk caused by ESG factors, and the development of the Climate Action Plan. Together, these two developments should advance BCI's capacity to act on the responsible investing front going forward. With that said, BCI continues to take a position that divestment is not an effective approach to bring about change.

A few highlights of the last two years include:

- 2017 was the first year BCI reported on the carbon footprint of its public equity investment portfolio.

- 2018 BCI reported on the public equities and fixed income carbon footprints. In both cases they were below the benchmark.
- 2018 BCI adopts a Climate Action Plan. The Climate Action Plan delineates BCI's approach to the recommendations of the Task Force on Climate Related Financial Disclosures.
- 2018 BCI receives an A+ from PRI.
- 2018 QuadReal property Group sets a carbon reduction target of 80% by 2050 for the Canadian real estate portfolio.

11.0 Climate Action Plan Review

BCI's Climate Action Plan outlines their approach to managing long term risk and identifying opportunities. The report is undated, but references within the document suggest 2018 or 2019. The plan outlines four actions: Manage Risk, Integrate, Seek Opportunities, and Engage & Advocate.

Managing Risk involves analyzing trends and projecting that effect on the asset mix and specific investments. Integration refers to bringing climate impacts into the ESG process, while Seeking Opportunities is about the role investment can play in the transition to a low carbon economy. Engage and Advocate is about establishing metrics and increasing carbon disclosure response rates amongst a number of other activities.

Climate change was first recognized in the 1960's but it took until 1979 for NASA to reach the conclusion that "no reason to doubt that climate changes will result and no reason to believe that these changes will be negligible." https://climate.nasa.gov/nasa_science/history/

The Intergovernmental Panel on Climate Change (IPCC) was established by the United Nations Environment Programme (UNEP) and the World Meteorological Organization (WMO) in 1988. The Kyoto Protocol was signed in 1997. In 2007 the IPPC and Al Gore shared the Nobel Peace Prize for their work on raising awareness of climate change. The Paris agreement was signed in 2016.

Against this background, and following the development of a strong scientific and political consensus on the magnitude of the problem, one can measure BCI's response to climate change as cautious. 2017 marks the first year in which they calculated their public equity carbon footprint but they do not report a similar figure for their private equity. One might think those figures would be easier to obtain when having direct ownership.

BCI has calculated their personal operational greenhouse gas emissions in 2017 and purchased carbon offsets so as to reduce their net emissions to zero.

Again it is noted that the two and four degree warming scenarios are only expected to cause a portfolio drag of 0.14 and 0.16 percent over the next 15 years. While this analysis is based on the Mercer Climate Change Risk Assessment Research, a very large financial management organization with $15 trillion under management, our gut response is one of disbelief that the impact is so small.

Perhaps the short term impact of climate change is small, but as pointed out earlier, we expect BCI to work with scenarios more appropriate to the needs of current plan members who are relying on their pensions 60 years into the future.

12.0 Conclusions and Recommendations

The 2016 first SRI report very specifically addressed the questions laid out in the 2014 mandate of the sub-committee. This report has gone into much further depth on how SRI is carried out in practice, its current state, and how it is being quantified. This was a challenging undertaking for a lay committee and was only possible due to the experience of long time PAC members.

In reviewing this updated report and the previous ones, President's council may wish to update the mandate of the committee to reflect the challenge of carrying out an assessment of this nature.

There were six items in the original mandate which have largely been fulfilled by the three reports that have been delivered to date. Future reports could provide updates on the evolving understanding of fiduciary duty with respect to ESG issues and climate change, the role of the College Pension board SIPP policies, coordination with plan partners, and BCI in responding to changes, more detailed reporting on BCI's KPI's, carbon footprint, decarbonization progress, and private equity ESG metrics. Reporting on these measures will take a fair bit of work and possibility could be out of the sub-committee's range of expertise depending on the detail needed and the sub-committee members present for a future report.

The report has also focused on the issue of climate change as a major SRI issue but should not detract from the fact that there are concerns about pension investments in other areas.

The fossil fuel divestment campaigns have challenged the active ownership argument as a necessary tool for effecting changes. Collective societal pressure makes it possible to create change and influences political discussion.

The discussion on the difference between Socially Responsible Investing (SRI) and Responsible Investing (RI) is important because language can be used to obfuscate, mislead, or confuse people. SRI is a much stronger statement than RI and shifts the goal posts. It is recommended that BCI develop a relevant values framework that demonstrates leadership.

BCI's climate change forecasts are not adequate to capture the potential risks to its investments. These need to be extended to 25, 40, and 60 year time horizons.

The Interplan Investment Committee is a key operational group where collective decision making plays an important role in the evolution of ESG and SRI implementation particularly with the shared investment beliefs contained in the SIPP. Actions that support the effectiveness of this group such as meeting frequency, decision making models, and trustee education can bear fruit in better outcomes.

This committee is looking for better reporting from BCI on its KPI's, how well they are being met, quantitative scoring and how many of the 3500 companies has this has been applied to. We noted that the use of KPI's is still relatively new and thus our ability to measure progress on ESG is limited.

With the increasing importance of private equities investments, we are looking for improved reporting in this area and would like to see the KPI's applied here as well.

Overall, we are seeing progress being made on the SRI (RI) front by BCI and look forward to seeing these recommendations implemented.