



University
of Victoria

SUBMISSION TO THE UVIC BOARD OF GOVERNORS

FOR INFORMATION

To: FINANCE COMMITTEE

From: VICE-PRESIDENT FINANCE AND OPERATIONS



cc: President and Vice-Chancellor

Meeting Date: April 01, 2014

Subject: UVSS REQUEST TO DIVEST UVIC FOUNDATION INVESTMENTS IN FOSSIL FUELS

Basis for Jurisdiction: Committee's Terms of Reference

Background

The University of Victoria Student Society (UVSS) has requested that the University of Victoria Foundation (Foundation):

1. Immediately freeze all new investments in fossil fuels.
2. Initiate a three-year plan to divest all current holdings in fossil fuels.

This request was made through a letter to both the University of Victoria (UVic) Board of Governors and the Foundation Board (see Appendix 1 and 2). This request is not unique to UVic or the Foundation and has occurred or is occurring on many campuses across North America. 350.org is the organization that started the Divest from Fossil Fuels campaign and they provide the infrastructure and resources for students and other groups to start campaigns in their community. 350.org is so named as they advocate that humans must reduce the amount of CO₂ in the atmosphere from its current levels of 400 parts per million (ppm) to below 350 ppm. The organization's goal is to actively recruit cities, states, religious institutions, colleges and universities to join the Divest from Fossil Fuels campaign.

The purpose of this document is to provide background information and context to the Board of Governors as a precursor to future discussions.

University of Victoria Foundation

The Foundation was established in 1954 and is responsible for managing more than \$345 million in over 1100 endowment funds, disbursing in excess of \$11 million annually for scholarships, bursaries, awards and research centres. The purpose of the Foundation is to encourage financial support of the university through donations from individuals, corporations, and foundations to fund scholarships, bursaries and other university purposes, and to promote a continuing interest in the university and in higher education in general. The Foundation is governed by a Board of Directors (list of Directors is included as Appendix 3) distinct from the university Board of Governors. The Foundation Board is composed of volunteers with investing and legal experience. The Foundation is governed by the University of Victoria Foundation Act (BC) which states that the Foundation Board has the investment powers of a trustee as set out in the Trustee Act (BC). As trustees, the overall responsibility for investment of assets rests with the Foundation. As such, the Foundation has established a Statement of Investment Objectives and Guidelines under which the Board has delegated investment management of the assets to professional investment managers. In turn, the investment managers engaged by the Foundation are charged with investing in diversified portfolios that produce the best returns possible at an acceptable level of risk.

The Foundation's Current Approach to Divestment

The University of Victoria has a long history of leadership in sustainability. Over the past few decades the university has received international attention for its commitment to green campus operations, interdisciplinary research, real life learning opportunities, and innovative community partnerships.

Its strategic plan states that as a university, "we are committed to promoting the development of a sustainable society through our programs of education and research and the stewardship of our own financial and physical resources."

Not surprisingly the subject of responsible investing including the use of divestment has been raised by stakeholders of the university before. In 2012 the Foundation conducted a review of how peer organizations (with responsibility to steward assets) were considering responsible investing including the use of tools such as proxy voting, screening (positive and negative), corporate engagement, divestment and considering environmental, social and governance (ESG) issues. The Foundation also canvassed existing managers to determine how responsible investing was considered in their investment decision making process. A key question the board discussed was, "can we consider the use of responsible investing tools without sacrificing financial return?"

Based on the review, 4 options about responsible investing were presented and considered by the Foundation. After consideration, the Foundation adopted a Responsible Investment Belief which states:

As long term investors, the Foundation Board believes responsible investing, taking environmental, social and governance (ESG) factors into consideration, can have a positive effect on long term financial performance and investment returns.

The Foundation Board will apply the following measures:

1. *In evaluating prospective investment managers, the Board considers how ESG issues are incorporated into the investment decision making process;*
2. *Existing equity investment managers are requested to provide proxy voting reports and to highlight exceptions to their proxy voting policy; and*
3. *Requests annual disclosure by investment managers regarding the processes by which ESG factors are incorporated into the investment decision making process.*

The Foundation received the UVSS letter at its February meeting. The letter was received after the meeting content had been set. Given this fact, there was not sufficient time to address this important and complex request at that meeting and therefore it will be given consideration at the Foundation's next meeting in May. This timeline will enable the Foundation to gather further information with respect to what others are doing and any new developments in responsible investing since their belief was adopted. (Appendix 4 – Foundation Response Letter)

Divestment Considerations

The question of whether to divest or not is complex. There are many aspects to consider and a large set of university stakeholders' views to respect, including faculty, staff, students, donors and government, all of whom will likely have very diverse views. The following section outlines 5 broad categories that are important to consider when a divestment request is made. Within each of these categories, questions have been posed, along with information with respect to the specific UVSS request to divest of fossil fuel companies.

1. *Financial*

- a) What is the financial impact of the divestment? Would it have a positive, negative or neutral impact on endowment returns? Considerations include:
- There are increasing concerns about a “carbon bubble,” wherein the business model that provides the basis for the fossil fuel industries' current value is unsustainable because much of their value is built on fossil fuel reserves that can't be extracted if we are to maintain a safe climate.
 - Companies that are involved in fossil fuels make up a significant portion of all companies in the investment universe. At December 31, 2013 the energy sector represented 25% of the Canadian stock market and 10% of the world market. Divesting of all companies involved in fossil fuels, given how significant it is for the Canadian and global investment market, would limit the opportunities for investment and diversification, thereby impacting return.
- b) Will divestment impact fundraising?
- Existing or future donors – divestment could encourage or deter donors depending on their viewpoint with respect to divesting generally or for fossil fuel companies specifically.

2. *Efficacy*

Will divestment achieve the change desired?

- Will divestment of fossil fuel accomplish the end goal, which is to limit the extraction of fossil fuels and encourage the use of alternative energies?
- Is there an alternative or more effective way to accomplish the same result?
- If there is widespread divestment by North American investors, what would be the impact, if any, of these companies being owned by non-North American investors?

3. *Moral*

Is there a moral imperative that UVic should support? Would there be consensus among UVic's various stakeholders? What would be the process to determine and who would be responsible to undertake an assessment? What if there is not agreement?

- Is there a conflict in divesting from something we heavily rely on for our operations and in an area that we provide academic programming?
- Fossil fuel use is uniquely polarizing, in that we require it for the energy to heat and light our buildings, to fuel our transportation, and to run our computers; however it is considered to be the primary reason for climate change.

4. *Reputational*

What would be the impact on UVic's reputation from either divesting or not divesting?

- UVic is a leader in sustainability and divestment of fossil fuel companies could be seen to better support that value.
- A commitment was made to existing donors to make investment decisions in the best financial interests of the donation. Using a financial resource to influence social change and potentially not meeting that commitment could be viewed negatively by donors and/or the broader community.

5. *Legal*

Is divestment consistent with the Foundation's Board Members fiduciary duty?

- The Foundation is governed by the University of Victoria Foundation Act (BC), which states that the Foundation Board has the investment powers of a trustee as set out in the Trustee Act (BC). As trustees, the overall responsibility for assets rests with the Foundation Board. In accordance with trustee law, the fiduciary duty of the trustees is to act as a prudent investor when making investment decisions acting in good faith. Based on this test, would a prudent investor eliminate a large segment of the investment market from the opportunity set?

Other Institutional Responses

The responses for calls to divest of fossil fuel companies have been varied and appear to depend on:

- Level of student engagement, and;
- Financial implications of the divestment

There are currently 20 active "Go Fossil Free" divestment campaigns in Canada and hundreds in the US. To date, 8 US schools have chosen to divest; however, 2 of these schools are implementing divestment differently than requested. The school with the largest endowment on the list is divesting only of coal and tar sands companies. Another school is divesting of the largest 200 fossil companies as identified by 350.org. A list of the 8 schools and the size of their endowments is available as Appendix 5.

Harvard University's response to the divestment request is the most publicized as they have the largest endowment in the US and the student support was strong on campus. The Harvard response letter is included as Appendix 6. McGill's Board reviewed this issue in the fall and decided not to divest.

We have also been in contact with UBC and SFU since both schools have had similar requests made of them. We understand that UBC's response will be available in the next few weeks.

Next steps:

Given investment of endowment assets is the responsibility of the Foundation in accordance with the applicable legislation, the Board should wait to respond to the correspondence until after the request has been considered by the Foundation's Board. As noted in the response from the Foundation, they intend to consider the request at their meeting in May. A report will be brought back to this Board after that meeting. In addition to the response from the Foundation, other information provided will include the approach by UBC.

Appendices:

Appendix 1– February 4th, 2014 Letter from the UVSS to the Board of Governors

Appendix 2– February 4th, 2014 Letter from the UVSS to the Foundation Board

Appendix 3 - Board of Directors of the University of Victoria Foundation

Appendix 4 – February 28th, 2014 Response to the University of Victoria Student Society

Appendix 5 – List of 8 schools that have committed to fossil fuel divestment

Appendix 6 - October 2013 – Harvard Fossil Fuel Divestment Statement

Appendix 1– February 4th, 2014 Letter from the UVSS to the Board of Governors



Dear University of Victoria Board of Governors,

It has come to our attention that the University of Victoria Foundation has \$20.98 million invested in the fossil fuel industry, in companies whose main source of revenue is the extraction, distribution or burning of fossil fuels.

The University of Victoria's mission states, "We are committed to... promoting the development of a just and sustainable society through our programs of education and research and the stewardship of our own financial and physical resources".

The portion of the Endowment Fund invested in fossil fuels does not reflect this statement. The science is clear: anthropogenic carbon emissions are causing rapid climate change worldwide, which is already responsible for the death of thousands and displacement of millions of vulnerable people every year.

If it's wrong to wreck the climate and peoples' livelihoods, then it's wrong to profit from that wreckage. The University of Victoria Students' Society deeply regrets your deliberate willingness to invest in an industry quickly consigning our generation, and future generations, to life on an inhospitable planet.

Scientists, industry, and government leaders alike have agreed that catastrophic climate disruption will take place if warming exceeds 2°C. In order to prevent warming beyond this threshold, two-thirds of the oil, coal, and gas in proven fossil fuel reserves must stay underground. Fossil fuel companies' business plans and financial value rely on burning all of the proven reserves in their possession. Therefore, in the long term, their business models are incompatible with a liveable planet, and their financial value is suspect. Investments in fossil fuels will begin to lose their value as we come to terms with the fact that there is more carbon in the ground than can safely be burned.

As an organization that prioritizes improving the accessibility of post-secondary education, we believe this is especially important. By investing in fossil fuel industries you are not only contributing to the creation of a dubious future for your students, but also banking on industries that are currently over-valued. Major financial industry experts such as HSBC believe, for instance, that these companies may be overvalued by as much as 60%. Thus divestment is the only option to maintain long-term stability of funding from the Endowment. This point is very important to us, as the UVSS maintains its primary aim of keeping education accessible. We believe, for instance, it is vital to maintain the 2% per year tuition fee increase cap and that the university should do everything in its power to improve accessibility to post-secondary education. These goals must not be sacrificed to pursue divestment, but they don't have to be, and in any case, continuing to hold fossil fuel company equity devalues a university education by destroying graduates' futures.

Moreover, the negative costs of fossil fuel consumption don't begin when they're burned. Those costs are also felt when fossil fuels are dug, pumped, or fracked from the ground, and when those fuels are transported and refined. In many cases, these processes cause irreparable harm to the communities at the front line of extraction, transportation, and refinement.

To be a true leader in sustainability and innovation, it is imperative that we align our money with our mission. Universities have both an obligation and a unique opportunity to cultivate a healthy society and

planet. Funding the destruction of our future is in direct conflict with this value, and with many goals outlined in the University's Strategic Plan.

The University of Victoria has the opportunity to take a strong moral stance on what will likely become this generation's greatest crisis: climate change, and the social injustices that come with it. By using its financial and social influence, the University can promote positive change towards maintaining a livable Earth for all of us.

We write to you to call on the University of Victoria Foundation to:

3. Immediately freeze all new investments in fossil fuels.
4. Initiate a three-year plan to divest all current holdings in fossil fuels.

The University of Victoria Students' Society urges you to consider this request very seriously. We are acutely aware that the issue of climate change merits urgent action. We stand with students at over 300 other universities across North America who are working on the same initiative, along with individuals in countless municipalities and other institutions.

We need change. The time for that change is now. And we call on the University of Victoria to be a leader in making that change happen.

Sincerely,

A handwritten signature in black ink, appearing to read 'K Mech', written in a cursive style.

Kelsey Mech
UVSS Chairperson

Appendix 2– February 4th, 2014 Letter from the UVSS to the Foundation Board



Dear University of Victoria Foundation Board,

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6. Initiate a three-year plan to divest all current holdings in fossil fuels.

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Sincerely,

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Kelsey Mech
UVSS Chairperson

Appendix 3 - Board of Directors of the University of Victoria Foundation
MEMBERS OF THE BOARD

As at October 1, 2013

Elected by the Members

Ms. Lisa Hill (Chair)
Mr. Michael Mills
Mr. Andrew Turner
Mr. Richard Weech (Vice-Chair)

Appointed by the Board of Governors of the University

Mr. Tim McElvaine
Mr. Robert Miller
Ms. Carolyn Thoms
Ms. Fiona Hunter
Mr. Duncan Webster

University Members (*ex officio*)

Prof. Jamie Cassels
Ms. Gayle Gorrill

Officers

Ms. Carmen Charette (President)
Mr. Andrew Coward (Treasurer)
Dr. Julia Eastman (Secretary)



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UNIVERSITY OF VICTORIA FOUNDATION

University
of Victoria

March 6, 2014

Ms. Kelsey Mech
Chairperson
University of Victoria Students' Society
University of Victoria
PO Box 3035 STN CSC
Victoria, BC V8W 3P3

Dear Ms. Mech,

Thank you for your letter of February 4th, 2014 requesting the University of Victoria Foundation:

1. Immediately freeze all new investments in fossil fuels; and
2. Initiate a three-year plan to divest all current holdings in fossil fuels.

Your letter was provided to the board at our February meeting, and given the timing of the receipt of the letter, and the importance as well as the complexity of your request, your letter will be more fully considered at our next meeting in May.

Warm regards,

Lisa Hill
Chair of the University of Victoria Foundation

Appendix 5 – List of 8 schools that have committed to fossil fuel divestment

North American Colleges and Univesities Committed to Divestment	Approximate Endowment Value (if available)	Comments
College of the Atlantic	30,000,000	
Foothill-De Anza Community College Foundation	33,000,000	
Green Mountain College	1,000,000	
Hampshire College	37,000,000	
Naropa University	n/a	
Peralta Community College District	n/a	
San Francisco State University Foundation	51,200,000	Divestment limited to coal and tar sands
Sterling College	1,000,000	Divest top 200 fossil fuel companies
Unity College	15,000,000	
Total	168,200,000	

Appendix 6 – October 2013 – Harvard Fossil Fuel Divestment Statement

Dear Members of the Harvard Community,

Climate change represents one of the world's most consequential challenges. I very much respect the concern and commitment shown by the many members of our community who are working to confront this problem. I, as well as members of our Corporation Committee on Shareholder Responsibility, have benefited from a number of conversations in recent months with students who advocate divestment from fossil fuel companies. While I share their belief in the importance of addressing climate change, I do not believe, nor do my colleagues on the Corporation, that university divestment from the fossil fuel industry is warranted or wise.

Harvard is an academic institution. It exists to serve an academic mission — to carry out the best possible programs of education and research. We hold our endowment funds in trust to advance that mission, which is the University's distinctive way of serving society. The funds in the endowment have been given to us by generous benefactors over many years to advance academic aims, not to serve other purposes, however worthy. As such, we maintain a strong presumption against divesting investment assets for reasons unrelated to the endowment's financial strength and its ability to advance our academic goals.

We should, moreover, be very wary of steps intended to instrumentalize our endowment in ways that would appear to position the University as a political actor rather than an academic institution. Conceiving of the endowment not as an economic resource, but as a tool to inject the University into the political process or as a lever to exert economic pressure for social purposes, can entail serious risks to the independence of the academic enterprise. The endowment is a resource, not an instrument to impel social or political change.

We should also be clear-sighted about the risks that divestment could pose to the endowment's capacity to propel our important research and teaching mission. Significantly constraining investment options risks significantly constraining investment returns. The endowment provides more than one-third of the funds we expend on University activities each year. Its strength and growth are crucial to our institutional ambitions — to the support we can offer students and faculty, to the intellectual opportunities we can provide, to the research we can advance. Despite some assertions to the contrary, logic and experience indicate that barring investments in a major, integral sector of the global economy would — especially for a large endowment reliant on sophisticated investment techniques, pooled funds, and broad diversification — come at a substantial economic cost.

Because I am deeply concerned about climate change, I also feel compelled to ask whether a focus on divestment does not in fact distract us from more effective measures, better aligned with our institutional capacities. Universities own a very small fraction of the market capitalization of fossil fuel companies. If we and others were to sell our shares, those shares would no doubt find other willing buyers. Divestment is likely to have negligible financial impact on the affected companies. And such a strategy would diminish the influence or voice we might have with this industry. Divestment pits concerned citizens and institutions against companies that have enormous capacity and responsibility to promote progress toward a more sustainable future. I also find a troubling inconsistency in the notion that, as an investor, we should boycott a whole class of companies at the same time that, as individuals and as a community, we are extensively relying on those companies' products and services for so much of what we do every day. Given our pervasive dependence on these companies for the energy to heat and light our buildings, to fuel our transportation, and to run our computers and appliances, it is hard for me to reconcile that reliance with a refusal to countenance any relationship with these companies through our investments.

I believe there are a number of more effective ways for Harvard both to address climate change and to enhance our commitment to sustainable investment.

Our teaching and research on environmental and climate issues is significant and growing, and it is a priority in The Harvard Campaign.

We offer some 250 courses in the broad domain encompassing environmental studies and energy. We support some 225 faculty who work in the area, as well as a graduate consortium that involves more than 100 students and seven Schools.

We have a thriving University Center for the Environment. Outstanding faculty in chemistry, biology, earth and planetary sciences, engineering, and beyond are making profoundly important contributions to envisioning the future of energy and shaping the relevant science and technology. The Kennedy School's Belfer Center has won international acclaim for its influential work on climate change economics and policy. Harvard scholars in design are on the frontier of thinking about sustainable cities; scholars in law, business, economics, and public policy are leaders in addressing regulatory, commercial, and economic aspects of energy and the environment; scholars in public health do vital research on environmental health and its relation to energy use. Indeed, the foundation of our current national clean air regulations was a study undertaken more than two decades ago by faculty at the Harvard School of Public Health.

We also have a strong institutional commitment to sustainability in how we live and work. Our Office for Sustainability is doing outstanding work. We are making substantial progress in reducing our greenhouse gas emissions. We have become much more conscious of sustainable design principles in all of our physical planning and construction. We have created awards to recognize "heroes" who are helping to make Harvard green. And Harvard has earned an array of honors to recognize various sustainability efforts. I am very proud of all that our students and faculty and staff are doing on this front, and those efforts will continue and grow.

As a long-term investor, we need to strengthen and further develop our approach to sustainable investment. This is no small undertaking, and it will present challenges along the way. Especially given our long-term investment horizon, we are naturally concerned about environmental, social, and governance factors that may affect the performance of our investments now and in the future. Such risks are complex, often global in nature, and addressing them effectively often entails collaborative approaches. Generally, as shareholders, I believe we should favor engagement over withdrawal. In the case of fossil fuel companies, we should think about how we might use our voice not to ostracize such companies but to encourage them to be a positive force both in meeting society's long-term energy needs while addressing pressing environmental imperatives. And, like other investors, we should consider how to obtain further, better information on how companies not only in the energy industry but across all sectors take account of sustainability risks and opportunities as part of their business strategies and practices.

To help us pursue this path, Harvard Management Company has recently brought on its first-ever vice president for sustainable investing. She will help us think in more nuanced, forward-looking ways about sustainable investment, including the consideration of environmental, social, and governance factors. And, in concert with colleagues, she will play a central role in considering how Harvard can achieve superior investment returns as it fulfills a university's distinctive responsibilities to society.

Harvard has a strong interest in marshaling its academic resources to help meet society's most important and vexing challenges, and there is no question that climate change must be prominent among them. We will continue to do so, through the energy and ideas of our faculty, students, and

staff, in ways that are true to the purposes of our endowment and that best take advantage of the University's distinctive capacities as an academic institution.

Sincerely,
Drew Faust