Students' Society of McGill University
Association étudiante de l'Université McGill

Financial Ethics Research Committee

Office of the Vice-President (Finance & Operations)
Bureau du Vice-président (finance et opérations)

Policy Regarding Five Year Ethical Investment Plan

Whereas, the SSMU is committed to ethical practices and leadership on campus and the broader community;

Whereas, the SSMU is mandated to discontinue owning stocks in natural resource extraction companies and financial institutions with a stake in the Tar Sands;

Whereas, the SSMU has an Investment Portfolio of roughly $2,300,000;

Resolved, the Financial Ethics Research Committee provides a report on the Investment Portfolio once per semester;

Resolved, the Ethical Investment Plan is adopted as official policy of the SSMU.

Moved by:

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Ethical Investment Plan

Introduction

Given the Students' Society of McGill University's (SSMU) commitment to ethical practices and leadership on campus and in the broader community, the Ethical Investment Plan will serve as a plan of action to assess the SSMU's Investment Portfolio and then implement the alternatives and recommendations of this Ethical Investment Plan. The analysis and recommendations have been assessed using the Financial Ethic Research Committee's (FERC) research of the SSMU's current ethical business policy, research on socially responsible investing (SRI), and ethical practices and plans used by other student unions.

It is important to note the process of the Ethical Investment Plan. Initially drafted by the Vice-President Finance & Operations using the research conducted by FERC, the plan was edited and revised by the FERC. Once all feedback was received, the FERC Coordinator completed the plan accordingly. Thereafter, the plan was once more reviewed by the FERC followed by a question period of the plan to simulate anticipated questions at the Legislative Council.

Financial Ethics Research Committee

The FERC's main responsibility in regards to the Ethical Investment Plan will involve assessing, implementing, and reviewing the Ethical Investment Plan on an on-going basis. The FERC should report on the plan and its progress at least once per semester. Part of the FERC's report will contain a list of all current investments which violate the screening criteria.

Five Year Plan Goals

One of the main objectives of the five year plan is to incorporate socially responsible investing (SRI). The concept of SRI focuses on an investment strategy based on the principles and values of the investor, in this case, the SSMU. This five year plan will use the SRI criteria to assess current and potential investments. This includes the following:

Negative and Positive Screening: This criterion takes into consideration positive and negatives aspects that will be used when assessing investments.

Positive Screening	Negative Screening
Employee Empowerment, Equity and Diversity Sustainability Community Involvement Positive Products and Services	Human Rights Violations Environmental Policies Pipeline Companies Prevention of Union Activity

Supply Chain Sustainability	Tar Sands Tobacco/ Gambling/ Pornography Unsustainable/ Intensive Farming Armaments Manufacturers Consumer Product Safety

Shareholder Advocacy: This criterion focuses on the power of stock ownership to promote social change[1]. Here, there are two aspects that must be observed. Firstly, there is a proposal that alters the governance structure of a company. Secondly, there is a proposal that changes social aspects of the company, for example, employee discrimination. The FERC would use shareholder advocacy as a means of implementing change within companies. The FERC will present a proposal to Council to attend the AGM and write letters as a shareholder for a specific company being targeted for engagement. The FERC recognizes that companies will only be receptive to this if it does not come with significant financial costs, and thus the FERC will endeavour to focus efforts on companies which are receptive to such change.

The FERC will also seek to coordinate such efforts with other concerned shareholders, especially other student bodies/unions/societies. To that end the FERC will look into the creation of an inter-university shareholder advocacy group.

Integrating Social and Sustainability Factors with Stock Portfolio Analysis: Comparison of companies using commonly available SRI indices can be made to better integrate social and sustainability factors with financial analysis. As the same company might have a different ranking on different SRI indices, each index can be given a pre-determined weight and the different weights combined to obtain a composite ranking. If the ranking for a company is not available on any index, FERC will give the company a ranking based on the methodology employed by the index given the highest weight.

Given the recognition of fiscal responsibility, the FERC must ensure long-term growth and the financial consistency of individual investments. To ensure the financial viability of investments while taking into consideration the Ethical Investment Plan, the following SRI indices will be used as tools of evaluation:

- http://www.corporateknights.ca/
- http://www.domini.com/
- http://www.ftse.com/Indices/FTSE4Good_Index_Series/index.jsp
- http://www.sustainability-index.com/07_htmle/publications/guidebooks.html
- http://www.sustainalytics.com/
- http://www.unpri.org/
- http://www.socialinvestment.ca/mutualfunds.htm

[1] Corporate Social Responsibility: http://www.asyousow.org/csr/shareholder.shtml

The FERC will be responsible for monitoring the above working definitions to ensure they are congruent to any policies or resolutions passed that are relevant to the Ethical Investment Plan. The FERC will also take into consideration petitions from the SSMU members for divestment from specific companies.

Five Year Plan Criteria

The positive/negative screening process will be used as the criteria for SRI integration. Positive and negative scores will be given to companies according to the degree of their conformation with each screen, ranging from -150 to 50. A score of -150 indicates that a company has the given negative screen as one of its core activities; whereas, a score of 50 indicates that the company is an industry leader for the given positive screen. The scores will be decided by a consensus meeting of FERC according to the above working definitions and criteria. A threshold will be set for divestment, based on the distribution of the scores. For companies scoring below the threshold, a strong recommendation for divestment will be passed to Council. Similarly, a threshold will be set for engagement, and for companies scoring between the two thresholds, a recommendation for engagement will be passed to Council. Finally, a threshold will be set for a company to be considered socially responsible. Companies scoring above the threshold will be considered candidates for SRI integration[2].

Companies scoring above the upper threshold will then be put in a pool where they will be ranked based on the composite SRI index method given above, under the heading of Integrating Social and Sustainability Factors with Stock Portfolio Analysis, to come up with a final ranking for the SRI stocks. The highest ranked stocks will then be recommended as candidates for the SRI portion of the investment portfolio.

Five Year Plan Schedule

Year	**Plan of Action**
1 (2011 – 2012)	• Initial assessment of portfolio • Test of screening process to check practicality. • 2 – 5% SRI integration into the Investment Portfolio
2 (2012 – 2013)	• 6 – 9% SRI integration into the Investment Portfolio • Mid-point review of the plan
3 (2013 – 2014)	• 6 – 9% SRI integration into the Investment Portfolio • Mid-point review of the plan
4 (2014 – 2015)	• 10% SRI integration into the Investment Portfolio

[2]A company is considered a candidate for SRI integration if it scores highly across Social, Sustainability and Governance (SSG) indicators. A company is considered a candidate for engagement if FERC determines shareholder activism could potentially lead to an improvement in that company's SSG indicators.

	• Re-evaluation of Positive and Negative screening achievement goal
5 (2015 – 2016)	• 15% SRI integration into the Investment Portfolio • Renewal of the Ethical Investment Plan

The FERC recognizes that a few investments in the current investment portfolio already satisfy the negative/positive screening criteria. Thus initial achievement of targets stipulated in the Five Year Plan Schedule is considered to be manageable without a significant change in the composition of the overall investment portfolio.

The above schedule takes into consideration measurable objectives and goals. Each mid-point review of the plan will contain a report on the financial viability of the ethical investment plan. It is important to note that, during the fifth year, a revised Ethical Investment Plan must be proposed to ensure the ethical longevity of the Investment Portfolio.

Considering the goals, criteria, and schedule, the FERC should present a report on the Ethical Investment Plan and its progress before or on the third Legislative Council during the winter semester of every fiscal year. As stated previously, the report should contain a list of all the companies in the investment portfolio which are candidates for divestment.

Appendix 1: Definitions and Criteria for Positive/Negative Screening

Positive Screens:

Employee Empowerment, Equity and Diversity: The company actively encourages equity and diversity in its workforce. The company is ranked highly by its employees for work satisfaction, as shown by commonly available employer rankings. The company provides benefits and services to its employees beyond those considered to be the industry average, as observed by the company's various work policies and practices.

Sustainability: The company must demonstrate a commitment to sustainable practices. Sustainable practices cover a broad spectrum of policies and operational procedures with a long-term focus on reducing the impact of any business activity on the environment. Commitment may be demonstrated through a track record of sustainable practices, the availability of a Sustainability Policy, creation of positions with a specific focus on sustainability (i.e. hiring of a Sustainability Coordinator) or any other relevant measures with a demonstrable impact on business practices.

Community Involvement: The company seeks to become an active member of the communities in which it does business. For a positive screen to be realized, the company must not be a detrimental member of any community with which it is involved. In addition the company must have a history of concrete positive contributions in at least one community

Positive Products and Services: The company is directly involved in the production or provision of goods and services which generate positive externalities on usage (such as renewable energy equipment manufacturers).

Supply Chain Sustainability: The company has a supply chain sustainability policy in effect. The company demonstrates commitment to ensuring suppliers adhere to practices as outlined by the Ethical Business Policy at a minimum. The company has demonstrated willingness to engage suppliers in violation of the Ethical Business Policy, with the aim of working with suppliers to improve their business practices. This willingness to engage suppliers in violation is given more weight than disengagement because engagement has greater potential for effecting change as opposed to disengagement.

Negative Screens:

Human Rights Violations: The company is directly involved in human rights violations or knowingly provides resources to organizations involved in such violations as defined by internationally agreed human rights conventions. The company knowingly puts workers in an environment where they might suffer health related issues without providing them with the requisite training and equipment. The degree of involvement and culpability of the company in these violations must be determined, and a report on the feasibility of engagement prepared. If there is no possibility of engagement, a recommendation on divestment must be passed.

Environmental Policies: The company is involved in activities which lead to direct deterioration of the environment. If the company is involved in activities with potential for environmental hazard (such as mining, commercial logging), it must put in place operational policies which convincingly minimize the risk of such hazards. If the company is involved in activities which generate industrial waste, it must have in place waste management policies which stringently minimize the environmental impact of such waste. If such policies do not exist, or are not sufficiently rigorous (as observed by comparison to the industry standard), then there exists room for engagement with the company. If engagement is not productive, divestment or a reduction in holdings must be considered.

Pipeline Companies: The company provides products and services to customers involved in Tar Sands Oil production.

Prevention of Union Activity: The company has displayed hostility or antagonism towards unions or unionized workers. The company has actively discouraged the formation of unions. The company has discriminated against unionized workers as opposed to non-unionized workers. In countries where unions are banned by law, the company has showed hostility or discouraged the formation of parallel workers' organizations. In these cases active engagement with the company must be emphasised over divestment. A coordinated approach to shareholder activism must be followed over the long term. If this approach does not yield the desired results, or if the company is opposed to changing its practices, then divestment can be considered.

Tar Sands: Complete divestment from any company with core activities directly linked to the extraction of Tar Sands Oil.

Tobacco/ Gambling/ Pornography: Complete divestment from any company with business activities involving the production of tobacco or pornography, as well as the provision or facilitation of gambling activities.

Unsustainable/ Intensive Farming: The company engages in unsustainable/ intensive farming leading to a degradation of soil quality and the destruction of the surrounding ecology due to extensive use of chemicals. The company does not make sufficient provisions to prevent permanent ecological damage and desertification from its activities. If the company engages in unsustainable farming as a core business activity, shareholder activism may not be effective, and so divestment will have to be considered.

Armaments Manufacturers: Complete divestment from companies involved in the manufacture or distribution of armaments.

Consumer Product Safety: The company has been involved in breaches of commonly accepted consumer product safety standards. The company has failed to warn customers of the complete health risks associated with its products. The company has been knowingly involved in manufacturing products using substandard materials relative to those advertised, thus leading to potential health or safety risks in the users of those products. Significant room for engagement exists. Companies' conscious of adverse publicity should respond positively to shareholder advocacy. Divestment should not be considered as engagement would be a more effective approach to improving the company's consumer product safety standards.