



Ethical Investment Plan: Midpoint Review

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Introduction

In the winter of 2012, SSMU Council passed a five-year Ethical Investment Plan (EIP), drafted by the Financial Ethics Research Committee (FERC). This plan mandates the FERC to undertake a comprehensive review of SSMU's investment portfolio in light of various ethical, environmental, and fiscal concerns. The portfolio is worth about \$2.4 million, and is invested with Lester Asset Management. This midpoint review includes: an overview of the methodology used in reviewing SSMU's investments; an itemized breakdown of SSMU's investment portfolio; an assessment of SSMU's performance relative to the annual goals set out in the EIP; future plans for the EIP.

Methodology

The Ethical Investment Plan (EIP) lays out in detail the markers, or screens, against which SSMU is to grade our investments. As the EIP has it, SSMU will rank each investment on the basis of five positive screens (Employee Empowerment, Equity, and Diversity; Sustainability; Community Involvement; Positive Products and Services; and Supply Chain Sustainability) and nine negative ones (Human Rights Violations; Environmental Policies; Pipeline Companies; Prevention of Union Activity; Tar Sands; Tobacco/Gambling/Pornography; Unsustainable/Intensive Farming; Armaments Manufacturers; Consumer Product Safety). FERC is also mandated to consider conflict minerals as a negative screen, as stipulated by the (GA) Motion Regarding Conflict Minerals, passed by Council March 14th, 2013. The EIP mandates FERC to rank each investment against all of these screens, which yields a final score for each investment.

The bulk of FERC's efforts in the Fall (2012) semester went towards assessing the plausibility of this highly complex system of ranking. In order for the system to work, FERC needed to select one of the indices for ranking an investment portfolio that are available online (a list is included in the EIP). FERC conducted an exhaustive survey of these indices, as well as other publicly available ones, and concluded that none matched closely the screens provided in the EIP. Each utilized their own criteria for assessing investments. The indices researched by FERC included: Corporate Knights, SHARE, the United Nations Principles for Responsible Investing, FTSE4Good, Social Investment, Mercer Responsible Investment, Sustainalytics, and Domini. None of the indices



provided an actual guide for ranking our investments: it remained unclear how heavily to weigh each screen, etc. Further, many of these indices were found to be far less principled than SSMU: they included many companies in blatant violation of our red lines. An additional impediment was the large amount of information required about each company in order to rank it against all of the screens; it became evident that FERC would only be able to rank several investments per year if this system was followed. FERC received similar feedback from guides to best practices, and from SSMU's Policy Committee. On the whole, FERC found that few institutional investors utilize a ranking approach, and those that do so are far larger entities with much greater organizational capacities than the SSMU.

In light of these factors, FERC came to the consensus that a compromise approach ought to be adopted. This approach was based off of a key feature of several of the research indices surveyed, especially FTSE4Good: to start with negative screens. Several (but not all) of the negative screens in the EIP function as **red lines**: if a company violates these screens, then the SSMU is mandated to divest from them in as speedy a manner as is possible. These screens are: **Tar Sands, Tobacco/Gambling/Pornography, and Armaments Manufacturers**. Other policies or motions passed by SSMU Council over the past year have yielded **two other red lines: companies that do business or lobby to do business without consent on native land** (Motion Regarding a Greener McGill, article 7); and **fossil fuels** (Motion Regarding a Greener McGill, article 7). In our initial review of SSMU's portfolio, FERC has recommended divestment only for those companies that clearly violate at least one of these five red lines.

FERC therefore recommends that Council sort SSMU's investments into four distinct categories.

- 1) First is **divestment**: those companies that clearly violate at least one of our five red lines.
- 2) Second, the opposite extreme, is **Socially Responsible Investment**: those companies that, according to our review, obviously violate no red lines, and seem to steer clear of all other negative screens as well. Although we cannot claim to provide an absolutely exhaustive review of each of these Socially Responsible Investments, we have carefully checked all press coverage of these corporations (which is usually limited, as they tend to be low-profile ones), as well as any relevant social responsibility rankings or reviews (whether positive or negative). Those companies that we do not feel to be a risk in regards to any of the screens are thus grouped as Socially Responsible Investments.
- 3) Third, those companies that do not violate any of our red lines, but likely violate some of our other negative screens, are classed as **Further Research**



Required. Companies falling into this category will be examined more closely next year, and positive screens will be weighed against negative ones in the manner outlined in the EIP.

- 4) Finally, our fourth category is **Shareholder Advocacy**: for those companies that violate one of our red lines, but display promising behaviour otherwise, FERC will be mandated to engage in shareholder activism by communicating our views to the company, and by putting forward motions at annual general meetings for shareholders to rectify corporate behaviour. If this fails to yield concrete results, then divestment will be considered.

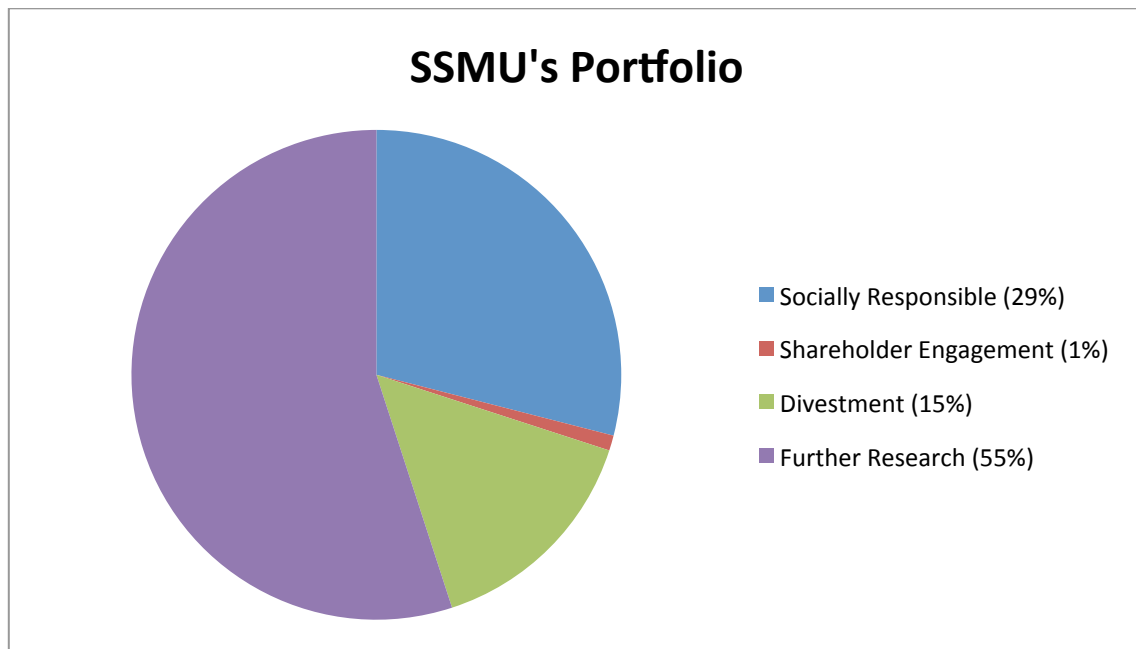
It must be noted that this strategy has been put into place in cooperation with VP FOPS JP Briggs and Sustainability Coordinator David Gray-Donald, both of whom are members of the committee. Both are well-suited to advise the committee on matters of financial and environmental importance. The VP FOPS has also been in touch throughout this process with Lester Asset Management. They will implement Council's decision in a time-sensitive and fiscally responsible fashion.

Adopted



Results of FERC's research

The FERC conducted a thorough review of the SSMU's portfolio with Lester Asset Management, which consists of 66 individual investments. Please see below for our analysis of the portfolio, which we recommend that Council adopts.



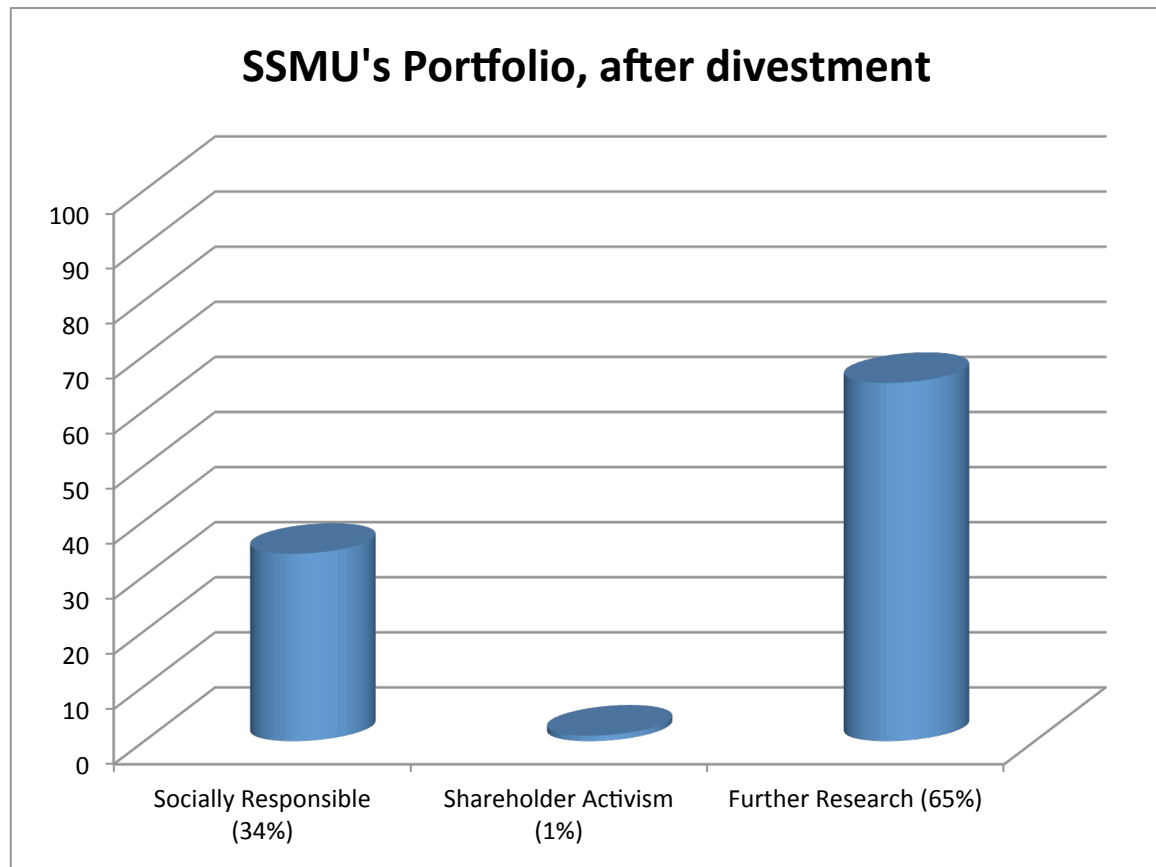
As can be seen above, SSMU's portfolio breaks down as follows: 29% Socially Responsible, 1% Shareholder Engagement, 15% Divestment, 55% Further Research.

In raw numbers, this corresponds to:

Total Investments	66
Socially Responsible Investments	19
Shareholder Activism	1
Divestment	10
Further Research	36



If Council elects to implement FERC's recommendations, and mandates SSMU to divest from the specified companies, then SSMU's portfolio will break down as:



Annual and Future Goals

The Ethical Investment Plan mandates the FERC to ensure that, by the end of the 2012-13 academic year, a minimum of 6-9% of SSMU's investments are socially responsible ones. This goal has already been met: our research indicates that 29% of SSMU's investments are socially responsible, and 34% will be considered socially responsible if Council chooses to adopt the FERC's recommendations.

Since the numeric goals stipulated in the EIP are no longer relevant, the 2012-13 FERC committee recommends that next year's FERC committee pursue the following goals, in addition to all other aspects of FERC's mandate:

- I) Work with Lester Asset Management to implement the recommendations contained within this report, if adopted by Council;
- II) Complete the exhaustive review of SSMU's portfolio initiated this year by FERC;



- III) Present a midpoint review of the EIP to SSMU Council in the Winter Semester of 2014, and put forward recommendations in regards to the status of SSMU's investments;
- IV) Develop a mechanism that will allow Lester Asset Management to check all potential new holdings against screens provided in the EIP;
- V) Investigate the possibility of alternative investments.

Alternative Investments

This winter, the FERC inquired into the possibility of placing some of our funds within an ethically-driven investment fund. To this end, we met at length with representatives from NEI Investments' Ethical Funds, and explored other funds including Freedom 55 Investments, AGF SRI Funds, and the Jantzi Social Index. We will continue this research over the summer and into next year. Before deciding whether or not to invest with a new fund, and prior to selecting a given fund, the FERC wishes exhaustively survey the field of all potential funds. NEI Ethical Funds are the strongest possibility at this point: they generate strong returns, have a variety of funds that guarantee low investor risks, and have a strong focus on ethics and sustainability. Their strategy is at odds with ours, however, insofar as they focus on shareholder advocacy to a very heavy extent. They very rarely divest from companies, preferring to use their considerable clout (they are a \$4 billion fund) to push for positive change from within. Because they adopt this strategy, they are invested in many companies that violate SSMU's red lines (such as Tar Sands oil exploiters and producers). Their argument is that they are better primed to create change from within companies as stakeholders than from outside these companies. It must be explored whether the Ethical Investment Plan, not to mention the Motion Regarding a Greener McGill, allow for SSMU to knowingly violate these red lines in the service of a broader strategic goal. In the meantime, FERC will continue to investigate the various options to be found in the field of socially responsible investing.

Summer Researcher

As noted above, the FERC has found that the system of ranking outlined in the EIP would be quite difficult to put into practice. The FERC will thus submit a proposal to hire a summer researcher who can devote her/his time to developing a sound system for ranking investments grouped under the category of "Further Research Required". This researcher will ideally be a student with substantial experience in the field of socially responsible investment, and will work under the guidance of the VP FOPS. S/he will also develop a mechanism by which the FERC's portfolio manager (Lester Asset Management) can filter new potential investments according to the criteria set out in



the EIP. Both of these documents will be submitted for Council's consideration in the Fall (2013) as additions to the EIP.

Adopted