

# **SUSTAINABLE INVESTING REPORT 2018**

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**MARCH 2019**

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**York University Endowment Fund  
Board Investment Committee**



## **SUSTAINABLE INVESTING REPORT**

In 2018, the Board of Governors approved revisions to the Endowment's Statement of Investment Policies and Procedures (SIPP) to reflect the University's commitment to sustainable investing. York University is committed to a sustainable investment strategy which integrates environmental, social and governance (ESG) factors in the overall management of its endowment portfolio. York University believes these factors can affect risks and returns, and that organizations that effectively manage environmental, social and governance factors are more likely to endure and create sustainable value over the long term. The University's approach to sustainable investing is evolving, recognizing that it is not a static concept, but one which changes and adapts as the linkage between ESG factors and risks and returns become better understood over time.

The University believes active engagement through its investment managers is an effective approach in assessing ESG factors and that an active approach will generate better and sustainable returns relative to a negative screening process, which would arbitrarily exclude certain investments.

The University will integrate ESG-related criteria in its manager selection process and hire managers who demonstrate transparent processes, incorporating material ESG consideration in their research and investment decision-making process.

The Sustainable Investing Report reflects the University's pledge to report to the community on how the University integrates environmental, social and governance practices in the management its portfolio.

## **YORK'S COMMITMENT**

**York University's commitment states that:**

- 1. The University will monitor Investment Manager ESG integration and engagement on a regular basis. Such monitoring will include an annual reporting process to the University on incorporation of ESG factors by Investment Managers.**
- 2. The University will report annually to the University community, as part of its overall reporting of investment performance, on how managers incorporate ESG factors in their evaluation process.**

**Investment managers are required to provide the University with information on the following:**

- i. An enumeration of ESG factors that were incorporated in the investment decision-making and portfolio construction for York's investment, such as a particular ESG category or categories (i.e. environmental, social, or governance) and/or specific factors within those categories;
- ii. An explanation of the methodology used to incorporate these ESG factors;
- iii. A description of the scope of the application of ESG factors (i.e. are these factors applied to the entire portfolio, or only certain sectors, or types of investments?); and
- iv. A copy of any ESG or related policies that they have, that apply to York's investment.

The scope of the request for 2018 was limited to York Endowment's equity managers. Sixty percent (60%) of York's Endowment assets are invested in equities, and to date, equity managers have been more sophisticated in integrating ESG factors into their respective investment processes than their counterparts managing fixed income and alternative assets.

Investment managers of York University's Endowment assets are aware that investing sustainably is important to the University. Any future mandates awarded to investment managers will contain clear expectations that sustainable investing principles, managed via ESG integration, be integral to their investment analyses.

York's commitment to investing sustainably is strengthened by membership in the Responsible Investment Association, and the Canadian Coalition for Good Governance.

**United Nations Principles on Responsibility Investment**

Although York's investment managers are not expected to be signatories to the United Nations Principles for Responsible Investment (UN PRI), as a prerequisite to being awarded an investment mandate, they are encouraged to abide by the PRI's six principles, listed below.

- **Incorporate ESG issues into investment analysis and decision-making processes.**
- **Be active owners and incorporate ESG issues into their ownership policies and practices.**
- **Seek appropriate disclosure on ESG issues by the entities in which they invest.**
- **Promote acceptance and implementation of the Principles within the investment industry.**
- **Work together to enhance the effectiveness in implementing the Principles.**
- **Report on activities and progress towards implementing the Principles.**

The PRI represents a framework “by which all investors can incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large” (<http://www.unpri.org>).

Of the five equity managers, Mawer is the only one that is not a signatory to the PRI. The responses from York University’s Endowment Investment Managers appear in the following order:

<b>Investment Manager</b>	<b>UN PRI Signatory</b>	<b>Date Signed</b>
1. Epoch Investment Partners	Yes	27 September 2018
2. Foyston Gordon Payne	Yes	5 June 2017
3. Mawer	No	
4. C Worldwide	Yes	21 December 2011
5. Westwood	Yes	26 July 2018

## **CONCLUSION**

This report represents an initial step in implementing Sustainable Investing via ESG integration within the York University Endowment. York investment portfolio will continue to evolve and place greater emphasis on investing sustainably, and current and future investment managers are expected to demonstrate a commitment to ESG principles. Future reporting shall incorporate ESG policies and processes on fixed income and alternative asset class managers, in addition to the equity managers that have reported here.

## INVESTMENT MANAGER ESG INTEGRATION

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### Epoch Investment Partners – Global Equity Manager (TD Emerald Shareholder Yield)

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#### Enumeration of ESG factors

Epoch considers corporate governance as it relates to management's orientation towards shareholders. Epoch monitors sectors that have higher non-financial risks, such as:

- environmental risks in the energy, materials and utility sectors
- social risks in the consumer discretionary, consumer staples, energy, materials and industrials sectors
- country risk for companies with operations in higher-risk countries - variety of factors including the conduct of the country's government, corruption levels and environmental and employee safety standards

#### Explanation of methodology

Epoch does not exclude companies or sectors from their investable universe, but rather analyzes and monitors ESG issues that may have an impact on financial performance in the short and long term.

On a weekly basis, the investment team receives a report that lists each company it holds for client accounts and the corresponding ESG rating assigned by its vendor, MSCI ESG. Each company is assigned a rating by its vendor between best (AAA) and worst (CCC).

- The investment team reviews and discuss any material ESG issue identified and any company that has been downgraded to a CCC rating at their weekly investment team meeting
- On a quarterly basis, a report summarizing companies that are assigned a CCC rating are discussed by the Portfolio Management Group
- On an annual basis, the Portfolio Management Group and the Compliance Department reviews Epoch's Environment, Social and Governance Policy and any changes are approved by a member of their Operating Committee.

Epoch pursues an active investment style by maintaining an ongoing dialogue with company management, however Epoch is not an "activist" investor.<sup>1</sup>

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<sup>1</sup> An activist investor is an individual or group that purchases large numbers of a public company's shares and/or tries to obtain seats on the company's board with the goal of effecting a major change within the company.

In addition to using MSCI ratings to identify ESG outliers, there are multiple providers that the firm is in the process of evaluating. It is anticipated that processes will evolve during 2019 to incorporate a broader set of ESG criteria into decision-making.

### **Application of ESG factors**

The ESG process, as described above, is applied to the entire portfolio.

### **Oversight**

Epoch's Portfolio Management Group, with assistance from the Compliance Department, is responsible for ensuring that Epoch's ESG policy is being maintained. The policy is reviewed on a semi-annual basis.

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## **Foyston, Gordon and Payne – Canadian Equity Manager (FGP Canadian Equity)**

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FGP believes that incorporating ESG analysis into the investment process can be an effective risk discovery tool.

### **ESG Philosophy:**

- ESG disclosure helps evaluate the investment quality of a company;
- Using ESG as a risk management tool.

### **ESG Approach:**

- Monitor: identify and monitor corporate ESG disclosure;
- Engage: actively engage and raise ESG concerns with management teams;
- Report: proactively report our ESG positions to clients.

### **ESG Research:**

- Review all sustainability disclosure (notably annual sustainability reports);
- Hold proprietary management meetings on key risk factors;
- Compare companies;
- Suggest disclosure improvements.

FGP provides a separate ESG analysis for each of its holdings in the FGP Canadian Equity Fund.

When a Portfolio Manager and Analyst are meeting with corporate management, they are strongly encouraged to engage management to determine if these companies are addressing the risks to their businesses related to climate change.

On a quarterly basis, FGP provides clients with an update on ESG activities and proxy voting.

### **ESG activity:**

- FGP's ESG analysis does not necessarily eliminate a company from being considered for the portfolio.
- FGP believes ESG is one of many fundamental risk factors used to determine the quality and risk-return trade off in a security.
- FGP believes ESG analysis helps their portfolio managers to understand all the risks inherent in a company.

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## **Mawer – Canadian Equity Manager (Mawer Canadian Equity)**

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ESG factors are not formally incorporated into the Mawer Canadian Equity fund's investment policy, but are considerations in the investment manager's analysis, decision-making process, and assessment of each company's business model, management and final valuation.

## **ESG Policy**

### **Environment**

Mawer believes that society punishes companies that leave negative environmental footprints. Fines and lawsuits are value destroyers for shareholders, and regulatory bodies can put a company out of business. Conversely, it believes in the upside to be gained by companies that pursue positive environmental policies.

### **Social**

In Mawer's experience, good corporate behaviour is compatible with long term value creation. Good labour relations and healthy business cultures help to increase productivity, decrease absenteeism, and foster loyalty. Companies that have built strong community partnerships are more likely to move things forward.

### **Corporate Governance**

Corporate governance standards and practices are the main vehicles through which corporate interests are aligned with shareholders' interests. For their part, shareholders have a responsibility to exercise their rights, including through proxy voting; Mawer actively votes proxies and will vote against company management if necessary.

In addition to weighing these factors in the investment process, ESG risks are monitored as part of the risk management process conducted by the Chief Investment Officer (CIO). In addition, the research team, as part of its ongoing due diligence on companies in the portfolio, regularly reviews the ESG risks and considers the alignment between Mawer's stated values and the investments they hold.

### **Commitment**

Mawer strives to assess ESG factors in making investment decisions. However, it acknowledges the difficulties due to an asymmetry of information between investors and management, and the complexity of global issues means that not all ESG issues may be captured.

The investment manager is committed to exerting a positive influence on the companies with which it engages but recognizes that it cannot force them to change. Accordingly, if the gap between its high corporate responsibility standards and a company's behaviour is too wide, Mawer will avoid, reduce, or exit the investment.

Mawer does not make hard and fast rules with respect to ESG issues but evaluates every situation individually. The company assures its clients that they should not mistake the lack of hard rules with the absence of high standards.



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## C Worldwide – Global Equity Manager (Global Equities)

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C WorldWide Asset Management (“CWW AM”) believes that ESG issues can affect the performance of shares in an investment portfolio.

**ESG Integration:** CWW AM partners with external consultants, GES® and Sustainalytics, and uses its own internal research and ESG input from sell-side analysts in its assessments.

**Alerts:** CWW AM receives weekly e-mails from GES® containing information on any new ESG related observations that require additional attention and possibly more detailed analysis.

**Screening:** All portfolios managed by CWW AM are screened by GES® biannually and that forms the starting point for further dialogue concerning ESG issues relevant to companies in CWW AM's portfolios.

- If a company is deemed to lack the will or resources to respect international law and conventions, the portfolio manager responsible will consider and possibly carry out a removal of the company from the relevant portfolio(s).

**Portfolio Adjustments:** All new companies added in a CWW AM portfolio is screened in the GES® and Sustainalytics databases.

**Engagements:** If any ESG issues arise in relation to an investment, CWW AM's Responsible Investment Committee will communicate and coordinate with the respective portfolio manager.

### The Responsible Investment Committee and its Work

CWW AM's Responsible Investment Committee meets at least four times per year and their primary purpose is as follows:

- Evaluate GES®'s biannual screening
- Follow up and take a position on developments or lack of same in current engagements
- Collaborate and dialogue with the relevant portfolio managers
- Establish the framework for ethical investing at CWW AM
- Ensure a continuing development and implementation of UN PRI

### Proxy Voting Policy

CWW AM monitors general meetings of the companies in which it invests on behalf of its clients. All proxy voting actions are reported to the CEO of CWW AM. In case of conflict of interest with employees or companies within the CWW AM Group, the CEO or CFO, is consulted to determine whether and how CWW AM should vote.

To assist in the monitoring of general meetings in the companies, CWW AM cooperates with proxy voting providers. CWW AM sets up the required formats for the mandate with a proxy voting provider through the custodian of the client. Subsequently, CWW AM monitors and votes on behalf of the client when deemed relevant.

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## Westwood – US Equity Manager (SMID Cap, SMID Cap Plus)

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### Enumeration of ESG factors

Westwood believes ESG criteria can provide insight into the future financial performance of a company and can be linked to investing in high quality businesses over the long term. It acknowledges that fundamental analysis of ESG is highly nuanced by security and investment strategy.

### Explanation of methodology

Westwood’s analysts have access to multiple third-party ESG metric providers (MSCI-ESG and Glass-Lewis / Sustainalytics) and their analysts often establish their own inputs (e.g. extensive interviews with prospective company management teams) which are integrated into a proprietary financial statement projection. Westwood also implements ESG screening factors for those clients with which Westwood has agreed in the client’s investment policy statement to do so.

**Application of ESG factors:** The incorporation of ESG factors in Westwood’s investment process is applied to the entire portfolio.

**Governance:** Westwood is committed to the successful integration and promotion of ESG at both the corporate and investment levels with the establishment of two governing structures, outlined below

Responsible Investment Committee	Corporate Responsibility Committee
<ul style="list-style-type: none"> <li>• Monitor, evaluate and respond to evolving best practices in responsible investing</li> <li>• Periodic reviews of and collaboration regarding responsible investment practices of each team</li> <li>• Determine implementation on any firm - wide responsible investment initiatives (integration across entities)</li> <li>• Review / approve ESG data vendors</li> <li>• Proxy–approve and oversee implementation of responsible investment related proxy voting practices</li> <li>• Monitor / oversee engagement activities</li> <li>• Provide responsible investment training for staff</li> <li>• Monitor reporting on responsible investment practices</li> <li>• Other matters related to responsible investing</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor and oversee the reporting on ESG integration at the investment level for the UN PRI</li> <li>• Oversee firm sustainability initiatives</li> <li>• Promote and provide ESG training across the firm</li> <li>• Review the firm’s ESG and corporate sustainability practices to determine and recommend strategy</li> <li>• Monitor and respond to material or escalating ESG issues</li> <li>• Proxy voting –Monitor guidelines used by our proxy administrator to ensure they align with our ESG policy</li> <li>• Consider, validate and address ESG membership across the firm</li> </ul>

## **Proxy Voting**

The investment manager views proxy voting as a means to exercise voting responsibilities solely in the best interests of its clients. Westwood's goal is to vote all proxies following the recommendations of Glass-Lewis proxy research service; however, it will vote in opposition to the Glass-Lewis recommendations when it is in the clients' best interest. If York University requests a proxy voting report, Westwood will facilitate the generation and delivery of an appropriate report from its Head of Data Governance.

## ESG Assessment of Investment Managers by Aon Hewitt (Investment Consultant)

The University also relies on its investment consultants to independently assess the University's investment managers with respect to ESG integration.

AON uses a four-point rating system, and the ratings for each of the Endowment's investment managers is included for reference.

Investment Manager	Aon ESG Rating (out of 4)
Epoch	2
Foyston, Gordon and Payne	3
Mawer	2
C Worldwide	2
Westwood	N/A <sup>2</sup>

### Aon's ESG Rating Guide

Overall ESG Rating	What does it mean?
4	The Fund Management Team demonstrates high awareness of all known and potentially financially material ESG risks in the investment strategy and, at present, has incorporated appropriate processes to identify, evaluate and potentially mitigate these risks across the entire portfolio.
3	The Fund Management Team demonstrates an above average awareness of potential ESG risks in the investment strategy and has taken essential steps to identify, evaluate and potentially mitigate these risks.
2	The Fund Management Team is aware of potential ESG risks in the investment strategy and has taken some steps to identify, evaluate and potentially mitigate these risks.
1	The Fund Management Team appears unaware or unconcerned with ESG risks in the investment strategy and has not taken any material steps to address ESG considerations in the portfolio.
N/A (Not applicable)	An evaluation of ESG risks is not directly applicable to this strategy and therefore an ESG rating has not been assessed.
NR (Not rated)	An evaluation of ESG risks is not yet available for this strategy.

Aon's ESG ratings assess the key sustainable investing behaviours<sup>3</sup>:

<sup>2</sup> Aon has yet to finalize Westwood's ESG rating

<sup>3</sup> Source: "Guide to Aon's ESG Ratings for Fund Managers"

**ESG Integration:** The degree to which ESG risk factors are incorporated in a manager's investment decision making processes.

**Active Ownership:** The level of active share ownership a manager can demonstrate alongside active proxy voting policies.

**Engagement:** The willingness of a manager to engage with companies in relation to ESG risk factors, and the ability of a manager to make progress on these issues.

**Collaboration:** The extent of external collaboration a manager undertakes with the wider RI community, furthering best practice and understanding.

**Organization:** A manager with a high qualitative ESG score for any strategy is likely to also score highly for its credentials on an RI culture at the organizational level.

**Staff and Resource:** Aon prefers portfolio managers and research analysts to have accountability for the integration of ESG risks and a level of senior sponsorship to drive an ESG risk culture in organizations of all sizes.

**Process:** Aon looks at key aspects of a manager's investment process and the extent to which the research and integration of ESG risk factors is systematically incorporated into processes.