Responsible Investment Workshop
November 19, 2016

Co-hosted by Peter P. Dhillon Centre for Business Ethics, UBC Sauder School of Business & Centre for Corporate Governance and Sustainability, SFU Beedie School of Business
Prior to joining UBC Sauder, she spent more than 15 years at socially responsible and impact investing firms Sustainalytics, NEI Investments (Ethical Funds), and Purpose Capital.

She currently serves as a corporate reporting judge for the Chartered Professional Accounts of Canada, a governance committee member at BlueShore Financial, and a director of the Canadian Centre for International Justice and Philippe Kirsch Institute.
<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
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<tr>
<td>9 am</td>
<td>Introduction</td>
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<tr>
<td>10 am</td>
<td>ESG Issues</td>
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<td></td>
<td>Break</td>
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<td>11 am</td>
<td>ESG Reporting</td>
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<td>Lunch</td>
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<td>1 pm</td>
<td>Evaluations Processes</td>
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<td>2 pm</td>
<td>Bloomberg ESG</td>
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<td>Break</td>
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<tr>
<td>3 pm</td>
<td>RI Panel</td>
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<td>4 pm</td>
<td>Wrap up</td>
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</tbody>
</table>
I. Terminology & Definitions
II. History
III. Industry Overview
IV. Strategies
V. Issues & Metrics
I. Terminology & Definitions

- ESG Investing, Sustainable Investing, Ethical Investing, Impact Investing, Green Investing, Divestment...

- Fundamentally, integration of environmental, social and governance factors in the selection and management of investments

- Typically duality in investment thesis
II. History

• Origins in religious doctrine
• 1960s: anti-war, anti-racist social movements
  • Universities, governments pressured to divest from Vietnam War, South Africa
• 1970s-80s: increasing environmental awareness (Chernobyl, Exxon oil spill)
• Modern SR funds begin to appear (PAX World, Friends Provident Stewardship)
• 1990s: SR ratings, indexes
• Present: large investment funds incorporate ESG in investment processes
III. Industry Overview

• Asset owners – retail, institutional, pensions, foundations
• Asset managers – traditional and specialized
• Asset classes – public & private equity, bonds, real estate, project finance
• Niche and mainstream – from impact investing to mutual funds
Growth in the Responsible Investment Industry

- Over $1 trillion assets under management in 2011, up 68% from 2013
- RI accounts for 31% of the Canadian investment industry

Source: 2015 Canadian RI Trends Report, Responsible Investment Association Canada
Growth in the Responsible Investment Industry

• $6.57 trillion AUM using SRI strategies in 2014, up 76% from 2012, tenfold from 1995
• Represents nearly 18% of total assets under management in the US

IV. Strategies

• Portfolio Construction

• Individual and Collaborative Engagement: Dialogue (single vs. multi-company), Filing Resolutions, Proxy Voting

• Standards Setting Advocacy: Legislation, regulation, listing requirements, voluntary bodies, etc.
V. Issues

**ENVIRONMENTAL (E)**
- climate change
- greenhouse gas (GHG) emissions
- resource depletion, including water
- waste and pollution
- deforestation

**SOCIAL (S)**
- working conditions, including slavery and child labour
- local communities, including indigenous communities
- conflict
- health and safety
- employee relations and diversity

**GOVERNANCE (G)**
- executive pay
- bribery and corruption
- political lobbying and donations
- board diversity and structure
- tax strategy

Source: UN Principles for Responsible Investment
V. Metrics

Example: Board Structure (Sustainalytics)
Responsible Investment Workshop: ESG Issues
November 19, 2016

Heather Hachigian, PhD
Senior Consultant | Purpose Capital
Research Associate | Carleton Centre for Community Innovation
heather@purposecap.com
ESG Issues in Responsible Investing
The Universe of ESG issues vs. Material ESG issues

- Environmental capital
- Social capital
- Human capital
- Business model and innovation
- Leadership and governance

Evidence of interest:
- Issue frequency in 5 data-driven tests:
  - Financial risks
  - Legal drivers
  - Industry norms
  - Stakeholder concerns
  - Innovation opportunity

Evidence of financial impact:
- Issue impact on 3 financial value drivers:
  - Revenue & Cost
  - Assets and Liabilities
  - Risk profile (Cost of Capital)

Forward-looking adjustment:
- Issue relation to 3 sustainability principles:
  - Probability
  - Magnitude
  - Timing

Material sustainability issues
‘E’ ENVIRONMENT

Evaluating a corporation’s, or other investment entity’s, relationship with the natural environment.

<table>
<thead>
<tr>
<th>LEVEL OF IMPACT</th>
<th>RISK TYPE</th>
<th>EXAMPLES</th>
</tr>
</thead>
<tbody>
<tr>
<td>PORTFOLIO LEVEL RISKS</td>
<td>Technology, Resource Availability, Impacts, Policy &amp; Regulatory, Reputation &amp; Litigation</td>
<td>Operational risks, fall in demand, stranded assets</td>
</tr>
<tr>
<td>SYSTEMS LEVEL RISKS</td>
<td>Environment and natural capital depletion</td>
<td></td>
</tr>
</tbody>
</table>

Evaluation: Often viewed as the easiest sustainability issue to quantify: Comparable units of measurability (e.g., tonnes of CO₂ emissions)
CASE: Climate Change

INVESTOR: Norway Government Pension Fund- Global (>$1 trillion AUM)

RATIONALE: Regulatory and other policy & technology changes, leading to risks of increased operating costs and/or a fall in demand.

DATA SOURCES: Specialized data providers

METHOD: Analyzes GHG emissions (direct) from all companies, relative to company size.

LIMITATIONS: Does not account for corporate strategy, industry structure, indirect emissions (in companies’ supply chains), etc.

RESULTS: Once risks are identified, they are analyzed, monitored and considered for ownership activity or activity directed at market standard setters.
‘S’ Social

Evaluating a corporation’s, or other investment entity’s, relationship with its stakeholders (e.g., communities, consumers, employees, supply chain).

<table>
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<th>EXAMPLES</th>
</tr>
</thead>
<tbody>
<tr>
<td>PORTFOLIO LEVEL</td>
<td>Reputation &amp; litigation</td>
<td>Forced labour, employee health &amp; safety, consumer rights, child labour</td>
</tr>
<tr>
<td>SYSTEMS LEVEL</td>
<td>Human capital depletion; Social cohesion</td>
<td>1. NO POVERTY  2. ZERO HUNGER  3. GOOD HEALTH AND WELL-BEING  4. QUALITY EDUCATION  8. DECENT WORK AND ECONOMIC GROWTH  10. REDUCE INEQUALITY</td>
</tr>
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</table>

**Evaluation:** Investors generally view ‘S’ as more difficult to quantify, since these issues often invoke culturally specific norms that not translate easily into generally accepted standards of behaviour.
CASE: HR abuse in privately-operated migrant detention centers

INVESTOR(S): Australian pension funds (e.g., HESTA, Christian Super)

RATIONALE: Legal, reputational & financial risks

DATA SOURCES: Independent NGO research, combined with investors’ own data & analysis.


LIMITATIONS: Failure to detect problems in first place (also see RANA Plaza example).

RESULTS: Several pension funds divested from Transfield Services. Others are engaging with company management and directors to address human rights abuses.
‘G’ Governance

Evaluate a corporation’s, or other investment entity’s, relationship with its investors.

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</tr>
</thead>
<tbody>
<tr>
<td>PORTFOLIO LEVEL</td>
<td>Reputation &amp; litigation</td>
<td>Corporate fraud &amp; scandals; poor board-level decision-making, shareholder</td>
</tr>
<tr>
<td></td>
<td>Operational risks</td>
<td>rights (e.g., say on pay)</td>
</tr>
<tr>
<td>SYSTEMS LEVEL</td>
<td>Public institution depletion</td>
<td>Financial system health, tax havens, erosion of public trust</td>
</tr>
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</table>

**Evaluation:** Often considered the easiest category of sustainability issue to relate to a firm’s financial performance.
CASE: Board Diversity (Gender)

INVESTOR: Shareholder Association for Research and Education, with OceanRock Investments

RATIONALE: Operational performance risk (wider variety of perspectives in decision-making)

DATA SOURCES: Companies listed on the TSX are required by the OSC to ‘comply or explain’ why they do not have a gender diversity policy.

METHOD: Analysis of proxy circulars filed by companies.

LIMITATIONS: Moving beyond ‘tokenism’: it is easy to count the # of women on boards but more difficult to determine if women, and other groups, have a representative voice.

RESULTS: Shareholder proposal was rejected (16% in favour). SHARE continues to engage with Restaurant Brands Int. to develop plans, timelines and activities for increasing gender diversity.
Exercise

Divide into three groups: E, S and G

1. Choose an ‘E’, ‘S’ or ‘G’ issue that is relevant to investors.
2. What risks and/or opportunities does the issue present for investors (at the portfolio level and/or systems level)?
3. What data would investors need to evaluate the risks/opportunities? What data sources might they use?
Concluding thoughts

• ESG data sources are diverse, including information supplied directly by companies (voluntary or mandatory reporting), NGOs, and specialist service providers.

• Investors use ESG evaluations to inform a variety of RI strategies, including engagement, standard setting, proxy voting, screening and divestment.

• Environment and Governance are often easier to observe and quantify than Social issues. However, measurability must not be the only driver for ESG evaluation.
Further reading & resources

• SASB [http://www.sasb.org/](http://www.sasb.org/)
• The Investment Integration Project [http://tiiproject.com/](http://tiiproject.com/)
• University of Oxford and Arabesque Partners (2015) meta-study
Responsible Investment Workshop: ESG Issues
November 19, 2016
A Vancouver-based sustainability professional with over a decade of experience, Dara specializes in the areas of sustainability reporting, performance, and compliance, as well as sustainability integration.

Dara is currently the CSR Specialist at Port Metro Vancouver, leading sustainability reporting and initiatives to integrate sustainability into core business and embed sustainability in corporate culture. Previously, she managed sustainability reporting at Teck Resources, Canada’s largest diversified mining company.
Sustainability Reporting – What is it?

Sustainability reporting:

- Organizational communications on environmental, social and economic priorities, policies, programs and performance

- Goes by a variety of names, including sustainability reporting, ESG reporting, CSR (corporate social responsibility) reporting, triple-bottom-line reporting, corporate citizenship reporting, etc.

- Can take numerous formats:
  - Digital or hard copy
  - Stand-alone report or integrated with annual/financial reporting
  - One or multiple parts
  - Aligned with or in accordance with reporting framework(s)

- Is developed for a multitude of purposes
What is Sustainability Reporting – Who is it for?

Sustainability reporting is intended for:

- **Internal stakeholders:**
  - employees
  - leadership
  - communications departments

- **External stakeholders:**
  - Customers
  - investors
  - analysts
  - public
  - members
  - industry associations
  - board of directors
  - government
  - sustainability professionals
Sustainability Reporting - Trends

- Sustainability reporting is standard practice among the world’s largest companies
- 83% of Canada’s largest 100 companies reported on sustainability in 2013

Why?
- Nearly 50 socially responsible investing (SRI) indices are offered directly or indirectly by stock exchanges
- More governments are requiring some ESG disclosures with annual filings
- Increasing stakeholder expectations
Why Report on Sustainability?

Meets mandatory/quasi-mandatory requirements

- Meet mandatory reporting requirements in certain jurisdictions (France, Sweden)
- Meets industry requirements (ICMM, TSM)
- Meets stakeholder commitments (UNGC)

Reasons for reporting:

- Improves business performance (promotes collaboration, improves decision making)
- Improves information management
- Drives accountability on our goals and commitments – what gets measured matters
- Promotes better risk management
- Better understanding of and communicate on impacts, risks, liabilities and performance
- Stakeholder engagement/ communication tool
- Increases social licence
- Attracts capital
Additional Reasons for Reporting – An Insider’s perspective

• Everyone else is doing it
• Get on lists (RobecoSam (DJSI), Corporate Knights, CDP)
• Look better than the rest of the industry - do what everyone else is doing, but better
• Existing link to executive compensation
• Pet project of CEO or internal champion
• Provides internal communications group with good content and stories
Sustainability Reporting Frameworks, Rankings, and Ratings
## Sustainability Reporting Frameworks, Rankings, and Ratings

<table>
<thead>
<tr>
<th>STANDARD</th>
<th>FOCUS</th>
<th>WHY REPORT</th>
<th>SCORING</th>
<th>WHO REPORTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDP</td>
<td>Primarily GHG emissions, but has grown to address water and forestry issues as well.</td>
<td>CDP holds the largest repository of corporate GHG emissions and energy use data in the world and is backed by nearly 800 institutional investors representing more than $90 trillion in assets. Its transparent scoring methodology helps respondents understand exactly what's expected of them. CDP was regarded as the world’s most credible sustainability rating in 2013.</td>
<td>Companies receive two separate scores for Disclosure and Performance using a 100-point scale. CDP recognizes top scoring companies in the Carbon Disclosure Leadership Index (CDLI).</td>
<td>Public and private companies, cities, government agencies, NGOs, supply chains.</td>
</tr>
<tr>
<td>Dow Jones Sustainability Indexes</td>
<td>Industry-specific criteria considered material to investors. Equal balance of economic, social and environmental indicators.</td>
<td>Membership in the DJSI is prestigious as it represents the top 10% of the 2,500 largest companies in the S&amp;P Global Broad Market Index. The Corporate Sustainability Assessment (CSA) brings a sector-specific focus and need-to-know simplicity to disclosure for public companies. This index was regarded as the world’s second most credible sustainability rating after CDP.</td>
<td>Companies receive a total Sustainability Score between 0–100 and are ranked against peers; includes a Media and Stakeholder Analysis; those scoring within the top 10% are included in index.</td>
<td>The 2,500 largest public companies in the world.</td>
</tr>
<tr>
<td>GRI</td>
<td>Corporate social responsibility with an equal weight on environmental, social and governance factors. Heavy on stakeholder engagement to determine materiality.</td>
<td>GRI was announced as the official reporting standard of the UN Global Compact, making it the default reporting framework for the compact’s more than 5,800 associated companies. It’s among the oldest, most widely adopted and most widely respected reporting methodologies in the world. Its thorough focus on social and governance aspects of ESG is unparalleled.</td>
<td>Focus is on transparency so no true scoring methodology; new G4 framework requires entity reporting to choose “Core” or “Complete” reporting.</td>
<td>Public and private companies, cities, government agencies, universities, hospitals, NGOs.</td>
</tr>
<tr>
<td>SASB</td>
<td>US public companies only. Industry-specific issues deemed material.</td>
<td>SASB’s standards enable comparison of peer performance and benchmarking within an industry. Studies by Goldman Sachs and Deutsche Bank support this.</td>
<td>No scoring system. Instead, SASB is a standardized methodology to communicate material financial risks and opportunities to investors.</td>
<td>No one yet - they’ve just released their first sector reporting.</td>
</tr>
</tbody>
</table>
Sustainability Reporting Frameworks, Rankings, and Ratings
Materiality:

- Common to all reporting frameworks is the idea of materiality – that reporting should focus on a company’s material issues. All frameworks different audiences, and therefore, different definitions of materiality.

![CDP logo]

Please describe how your risk and opportunity identification processes are applied. How do you prioritize the risks and opportunities identified?

![SASB logo]

Disclosure of material sustainability issues is important to investors, companies, regulators, and the public.

Is your company publicly reporting the processes and tools used to identify and prioritize critical issues within the sustainability strategy, including a consideration of impact on the company’s business performance (i.e., materiality analysis/matrix)?

![Dow Jones Sustainability Indexes logo]

The information in a report should cover topics that reflect the organization’s significant economic, environmental, and social impacts or substantively influence the assessments and decisions of stakeholders.
Sustainability Reporting Process – The Ideal

- Planning
- Engagement
- Data Collection
- Analysis
- Writing
- Assurance
- Review
- Design and production

Aligned with business planning and reporting
Sustainability Reporting – An insider’s perspective

Sustainability Reporting Process – The Reality

- Data Collection
- Planning
- Engagement
- Assurance
- Writing
- Design
- Analysis
- Communication
- Business planning and reporting
Sustainability reporting is:

- Hard
- Non-linear
- Time consuming/Resource intensive
- Expensive
- Political

Key challenges include:

- Resourcing
- Data quality
- Lack of ownership
- Corporate Communications
- Over-reporting in areas where data exists
- Lack of integration of between sustainability/sustainability reporting and core business strategy/planning/reporting
Sustainability Reporting – Limitations

Common weakness of reporting

• Lacking the boarder context: Reports often miss providing sufficient contextual information to support reader’s understanding of the company’s management of risk and performance. How does organizational performance fit into broader sustainability trends and challenges?

• No one wants to deliver bad news: Corporate messaging on tough issues rather than a balanced discussion of issues is common place.

• Lack of sustainability integration: Sustainability performance without an clear connections to business objectives and strategy presents a limited picture of organizational performance. Readers do not get the full picture.

• Material issues and the kitchen sink: Data gaps and challenges in determining a materiality threshold lead reporters to including more, but not necessarily material information. Readers are left to determine what issues and challenges are key to the organization.

• Sustainability reporting is largely voluntary: Sustainability reporting lacks the rigor of financial reporting. The organization is left to implement internal or external quality controls, e.g. data reviews, assurance, stakeholder panels, management reviews. (Good reporters may not be good performers – Volkswagen, Barrick, BP)
Exercise: Using sustainability reports as an input into investment decision making

1. What framework is used to prepare the report? What are the strengths/weaknesses of this framework?

2. How credible is the data contained in the report?

3. What information would you look for to make an investment decision? What information is missing from the report?
I. Evaluations: Supporting Range of RI Strategies
II. Evolution of Evaluations Approaches
III. Single vs. Multi-Issue Screening
IV. Portfolio Eligibility Methods
V. Data & Analysis
I. Evaluations: Supporting Range of RI Strategies

• Portfolio Construction

• Engagement: Dialogue, Filing Resolutions, Proxy Voting

• Standards Setting Advocacy
II. Evolution of Evaluations Approaches

• Negative Screening (old and new)

• Positive Screening / Thematic

• Integration Approaches
III. Single vs. Multi-Issue Screening

Source: 350.org
### III. Single vs. Multi-Issue Screening

<table>
<thead>
<tr>
<th>Environmental Issues</th>
<th>Social Issues</th>
<th>Governance Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate change and carbon</td>
<td>Customer satisfaction</td>
<td>Board composition</td>
</tr>
<tr>
<td>emissions</td>
<td>Data protection and privacy</td>
<td>Audit committee structure</td>
</tr>
<tr>
<td>Air and water pollution</td>
<td>Gender and diversity</td>
<td>Bribery and corruption</td>
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<tr>
<td>Biodiversity</td>
<td>Employee engagement</td>
<td>Executive compensation</td>
</tr>
<tr>
<td>Deforestation</td>
<td>Community relations</td>
<td>Lobbying</td>
</tr>
<tr>
<td>Energy efficiency</td>
<td>Human rights</td>
<td>Political contributions</td>
</tr>
<tr>
<td>Waste management</td>
<td>Labor standards</td>
<td>Whistleblower schemes</td>
</tr>
<tr>
<td>Water scarcity</td>
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</table>

Source: CFA ESG Issues in Investing 2015
III. Single vs. Multi-Issue Screening

Please rate the following ESG issues in terms of importance to your investment analysis/decisions on a scale of 1 to 5, where 1 is not important at all and 5 is very important.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Accountability</td>
<td>78%</td>
</tr>
<tr>
<td>Human Capital</td>
<td>62%</td>
</tr>
<tr>
<td>Executive Compensation</td>
<td>61%</td>
</tr>
<tr>
<td>Environmental Degradation</td>
<td>54%</td>
</tr>
<tr>
<td>Resource Scarcity</td>
<td>52%</td>
</tr>
<tr>
<td>Demographic Trends</td>
<td>50%</td>
</tr>
<tr>
<td>Supply Chain</td>
<td>47%</td>
</tr>
<tr>
<td>Board Diversity</td>
<td>41%</td>
</tr>
<tr>
<td>Climate Change</td>
<td>40%</td>
</tr>
</tbody>
</table>

Source: CFA ESG Survey 2015
IV. Portfolio Eligibility Methods

• Best-of-Sector vs. Baseline Approaches

• Company-Specific Expectations
  - Sector-Specific (Extractives vs. Telecomm)
  - Jurisdictional (Required Standards vs. Voluntary)
  - Country of Operations
  - Operational Factors

• Initial Inclusion Approval, Performance Monitoring, Divestment Threshold
V. Data & Analysis

- Company Disclosure (Investor and Regulatory)
- Third-Party “Data” (including uses of estimates) and Analysis
- Policy, Management Systems, Performance Framework
- Issue and Factor Weighting
- Quantitative vs. Qualitative
- Absolute, Relative and Trend Performance
- Data Averaging
V. Data & Analysis

• Company Disclosure (Investor and Regulatory)

• Third-Party “Data” (including uses of estimates) and Analysis
Responsible Investment Workshop: ESG Evaluations
November 19, 2016
Glenn is a Visiting Lecturer and the Faculty Advisor to Beedie Endowment Asset Management (BEAM). His primary work is managing a concentrated portfolio of public equities for bcIMC, Canada’s fourth-largest pension fund with $125 billion under management. Prior to joining the Global Thematic Team, Glenn was a portfolio manager on the Canadian research team.

Glenn has held numerous roles in the US, working on investments in both public and private equities.

Glenn is a Chartered Financial Analyst, and has a Masters in Financial Risk Management from SFU and a BA from Amherst College.
Bloomberg ESG DATA Trends

ESG Data Unique Users (Dec 2011-Dec 2014)

The number of users, and the amount of ESG data queried, is growing at a very similar rate to the trend in ESG integration.

Source: Bloomberg Impact Report 2014
ESG Performance

• Analyze a company’s historical ESG performance over time and versus its peers, so you can assess current and historical risks and opportunities.
Single Security Data

Company reported ESG data is available at a single security level. Offering complete transparency, ratios and third party scores are also available.
Industry Level Analysis

Bloomberg Intelligence industry dashboards provide the aggregated industry data, with drill downs to the company level, necessary for ESG Integration.
Portfolio Analysis with ESG Integration

ESG analysis at a portfolio level, including manager selection, is customizable and can further leverage proprietary scores and third party data.

Analyze a portfolio for ESG factors, including proprietary ESG data.
Quantifying ESG Risk with a Scorecard

- Based on Key Performance Indicators, understand a company's overall ESG performance to identify where a company is performing well and where it needs to improve.
Carbon Footprinting

• Aggregating disclosed and estimated Greenhouse Gas Emissions across a portfolio, allows an investor to fulfill pledges for disclosing carbon footprints.
Responsible Investment Workshop: Investor Panel
November 19, 2016

Glenn Powers
Sr. Portfolio Manager, Global Thematic at bcIMC

Glenn is a Visiting Lecturer and the Faculty Advisor to Beedie Endowment Asset Management (BEAM). His primary work is managing a concentrated portfolio of public equities for bcIMC, Canada’s fourth-largest pension fund with $125 billion under management. Prior to joining the Global Thematic Team, Glenn was a portfolio manager on the Canadian research team.

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Omar Dominguez
Director of Operations and Sustainability at Happy City

Omar has worked at Sustainalytics, NEI Investments, and as socially responsible investment advisor at the Treasury Department of the University of British Columbia.

He was the Co-founder and Advisory Board Chair of the Coalition of Universities for Responsible Investing (CURI).