

Dalhousie University Investment Committee
Report to the Board of Governors
Interim Report on Fossil Fuel Divestment
October 2014

Summary

As outlined in its June summary report, the Investment Committee (IC) is currently conducting a review of fossil fuel divestment and will deliver a final

- x The IC, in preparation for the July 2014 Divest Dal meeting, invited the group's input with a list of questions. The IC looks forward to receiving and reviewing Divest Dal's input.

Since the report to the Board in June 2014, the IC has continued to thoroughly investigate the issue of fossil fuel divestment and offers the following progress update on the committee's review and observations to date.

Considerations

As one of Canada's leading research universities, Dalhousie leads and engages in important discussions on climate change and environmentally sustainable practices. Dalhousie has been a leader in sustainability initiatives including the College of Sustainability and significant improvements in the sustainability of our buildings and campus operations.

The IC has been reviewing principles and approaches to responsible investing over the past 7-plus years. Ongoing review of the University's investment mandate is part of the IC's terms of reference, meaning this review of the divestment proposal fits within the IC's mandate.

Discussion on climate change and how to reduce our dependence on, and use of, fossil fuels is now and will continue to be part of our global conversation for some time. The same discussion and thoughtful consideration is warranted in relation to fossil fuel divestment. The topics are complex and warrant measured, balanced and thoughtful review on a number of fronts (financially and non-financial) to determine meaningful and useful approaches for Dalhousie University. Divestment, while the focus of this specific review, is a part of a larger and ongoing conversation within the University.

In its review of fossil fuel divestment the Investment Committee has considered:

- x the issue of climate change and Dalhousie's sustainability commitment;
- x alignment with Dalhousie's academic mission;
- x the IC and Board of Governors' fiduciary responsibilities;
- x stakeholder perspectives;
- x the potential impact of divestment on climate change;
- x an environmental scan of the current divestment conversation; and
- x divestment implementation issues.

The following sections of this interim report present a high-level summary of the considerations examined thus far.

Climate change and Dalhousie's sustainability commitment

The fossil fuel divestment conversation for the IC and the Board of Governors takes place against the backdrop of Dalhousie's overall efforts in support of environmental sustainability and commitment to address climate change.

While Dalhousie has been engaged in environmental and sustainability practices in its operations, curriculum, research and student life for decades, the past several years have seen a heightening and concentrating of this activity.

In 2007-08, Dalhousie launched Canada's first College of Sustainability, bringing distinguished thinkers and problem-solvers together in a new way to examine and take action on today's most urgent global issues. That same year, the U

knowing that so-called carbon stocks constitute 10 per cent of global markets and 25 per cent of Canadian equity markets.

Stakeholder perspectives

Dalhousie benefits from attracting students who are as serious about their studies as they are in their efforts to make a lasting impact on the world around them. It is difficult to measure the likely impact of divestiture on current students or other groups (including faculty and staff), but it would likely enhance Dalhousie's reputation with some stakeholders (including some students, faculty and staff).

At the same time, Dalhousie continues to educate students who want to work in resource-extraction industries and attend the University to be educated as geologists or engineers. This raises one key question the Board should consider: Should the University educate students to work in resource industries in which it would no longer invest? Would doing so be consistent with the University's mission?

The University and the Board must also assess the impact of divestiture on the wider University

The IC decided to formally incorporate ESG in its investment policies in November 2013. This action followed substantive and ongoing discussions with the funds investment managers on the merits of ESG, as well as their capabilities and efforts in this area. The IC also believes that incorporation of ESG best embraces the United Nations' Principles for Responsible Investing (UNPRI):

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

Dalhousie continues to press our investment managers to build their ESG capabilities, to actively engage with these companies, and to exercise proxy votes in the best interest of Dalhousie. Annual reviews of current managers now formally incorporate an assessment of ESG capabilities and development. Managers are required to report quarterly on any company engagement activities as well as any specific ESG risk that may have arisen in the portfolio, and if so, what actions will be taken. As in the past, invested managers are, required to report

of Dalhousie's investments are attained through institutional co-mingled funds, participating with other institutional investors where Dalhousie holds units in the funds of securities. Dalhousie does not directly hold the associated securities.

Dalhousie has utilized pooled funds to diversify its portfolio by gaining access to investment strategies that would not otherwise be available, and to adhere to its policy of investment manager diversification. Participation in institutional pooled funds also allows Dalhousie to access markets on a cost-effective basis. Transaction costs are per transaction, not by value. Consequently, participation in pooled funds allows transaction costs to be spread across larger sized transactions, resulting in lower transactional costs per security. Transaction costs are particularly high in overseas markets.

A number of firms also have minimum mandate sizes for segregated accounts that are substantially larger than what Dalhousie has to invest. As an example, Dalhousie's international managers have \$100 million minimum mandates for segregated accounts. Dalhousie's largest fund is valued at \$51 million, with the smallest valued at \$5.4 million.

Next Steps/Conclusion

As outlined throughout this report, discussion on climate change and how to reduce our dependence on, and use of, fossil fuels is now and will continue to be part of a global conversation for some time. Like these issues, divestment is complex and warrants the same thoughtful consideration, with a measured, balanced and thoughtful review on a number of fronts (financially and non-financial) to determine meaningful and useful approaches for Dalhousie.

As the IC completes its research and due diligence in advance of its final report in November, it is important to note the broad cross-section of activity undertaken by institutions in the post-secondary sector internationally in relation to divestment. In this respect it is apparent that there is no one-size-fits-all model or approach. Quite simply, a small number of universities have moved forward with commitments to divest from fossil fuels, and many others have chosen to pursue active forms of investor engagement without endorsing divestment.

Upon submission of this interim report, the IC will continue to invite input and receive contributions from stakeholders as Dalhousie moves forward with this important discussion.

Timeline

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| 1. Review draft progress report at IC meeting. | Oct 2014 |
| 2. Finalize progress report for October Board meeting | Oct 2014 |
| 3. Invite additional input and contributions from stakeholders | Nov 7, 2014 |
| 4. Submit final report recommendations for November BOG meeting. | Nov 2014 |