



2021 Investment Committee Report on Socially Responsible Investing



McGill

Message from the Chair of the Investment Committee	3
MIP Investment Framework	4
McGill's Eight SRI Commitments	5
Progress Tracker	6
Decarbonization	7
Impact Investing	10
ESG Integration	12
Engagement	13
Negative Screening	14
Institutional Leadership	15
Reporting	16
Review of SRI Practices	16
Additional Information	16

Message from the Chair of the Investment Committee

I am pleased to introduce the second annual Socially Responsible Investing (SRI) Report associated with the McGill Investment Pool (MIP).

McGill remains at the forefront of SRI which continues to evolve. In 2021, the Investment Committee continued to successfully implement the eight SRI commitments approved by the Board of Governors in December 2019. In this regard, I am pleased to highlight that, as at the end of 2021, the MIP listed equity portfolio emits 30% less emissions than its benchmark and that the MIP has met its target in impact investments, which now represent 5.0% of the MIP, or \$102.4M including unfunded commitments. Moreover, we commend the strong involvement of the MIP's managers with regards to responsible investing: 99% of the MIP's assets are managed by managers that have adopted Environment, Social and Governance (ESG) policies and/or are signatories to the United Nations Principles for Responsible Investment (UNPRI).

Once again this year, the Investment Committee has met its objectives of maintaining the integrity of the MIP's long-term investment goals and risk/return profile while sustaining a low-carbon portfolio. Although there are many ways to drive positive change, I am confident that the MIP is on the right path to do so while adopting a prudent and responsible approach to investing.

Our thanks go to the members of our Investment Committee and to the staff of the Office of Investments (OOI) under the leadership of Sophie Leblanc, CIO & Treasurer, for their hard work in implementing McGill's responsible investment practices. We will continue to share our progress towards achieving McGill's eight commitments to Socially Responsible Investing with the Board of Governors and the broader McGill Community.

Joel Raby

Chair of the Investment Committee

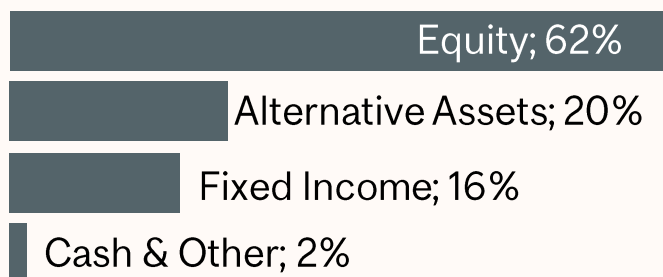
MIP Investment Framework

MIP Market Value

\$2.0B

As at December 31, 2021

MIP Asset Allocation



Characteristics of MIP's investment mandates

9 segregated mandates totaling \$793M

- Daily liquidity
- Tailored mandate with McGill

15 pooled funds totaling \$858M

- Daily or monthly liquidity
- Invested alongside other investors

44 private funds total \$386M

- No liquidity; lock-up
- Invested alongside other investors



McGill's Eight SRI Commitments

Decarbonization

Impact Investing

ESG Integration

Engagement

Negative Screening

Institutional
Leadership

Reporting

Review of SRI
Practices

Progress Tracker

Implementation status as of December 31, 2021 of McGill's eight SRI commitments:

1. Decarbonization



Target: Minimum 33% less carbon intensive than its benchmark, on a consistent basis, by 2025 (listed equity portfolio).

Status: The MIP listed equity portfolio stands at 30% below benchmark, ahead of the projected reduction expected at that point in time.

2. Impact Investment



Target: Minimum of 5% by 2025.

Status: Including unfunded commitments¹, 5.0% of the MIP's assets are impact investments, already on target with the 2025 objective.

3. ESG Integration



Statement of Investment Policy was amended in June 2020 to reflect ESG goals and objectives.

Status: ESG integration by managers: **99%**

4. Engagement



Participation in SHARE's UNIE program.

5. Negative Screening

In progress

McGill's University Advancement continued their branding efforts to increase investments in the fossil fuel free fund.

6. Reporting



The SRI report is presented to the Board of Governors and published annually.

7. SRI Review



A review of the current SRI practices has been added to the Board of Governors' calendar of business in Spring 2025.

8. Institutional Leadership



In 2021, McGill hired a Governance, Compliance & ESG Analyst and presentations were made to the Climate Charter Technical Committee, Bishop's University and the McGill community.

¹ Money that has been legally engaged by McGill towards private funds but not deployed yet. In general, commitments in private funds are deployed over a one to five year period.

Decarbonization

Monitoring the MIP’s Carbon Footprint

McGill has committed to reducing the carbon emissions of the MIP public equity portfolio in order to achieve and sustain, by 2025, a 33% carbon emissions reduction of the MIP public equities relative to the MIP public equities benchmark, with the understanding that the majority of the reduction is to be achieved within the first two years.

Carbon Emissions Measurements

The carbon footprint assessment covers the listed equity portfolios, which account for 62% of the MIP. At the moment, reliable data for fixed income securities and for unlisted assets such as private equity, real assets and other alternative assets are not available, but we expect that data coverage and reliability will improve with time.

Carbon footprint is a measure that uses the company’s carbon dioxide (CO₂) emissions, which best track the gases that trap heat in the atmosphere labeled as greenhouse gases (GHG). The GHG Protocol’s Corporate Accounting and Reporting Standard defines the commonly used “scopes” framework to categorize companies’ emissions:

Scope 1 All direct emissions from sources owned or controlled by the company	Scope 2 Indirect GHG emissions from consumption of purchased electricity, heat or steam	Scope 3 Other indirect emissions that occur from sources not owned or controlled by the company
McGill’s action plan toward carbon reduction is focusing on scope 1 and 2 emissions. Unlike scope 1 and 2 emissions, few companies monitor and disclose their scope 3 emissions.		

MSCI as the Data Provider

MSCI is a global provider of market indices and ESG solutions with expertise in ESG analysis and carbon footprint measurement. MSCI is the data provider for the carbon footprint analysis.

The MIP’s listed equity carbon footprint is measured in tons of CO₂ emissions equivalent per USD 1 million dollars invested (herein defined as tCO₂e/\$M invested). This normalized metric facilitates the comparison of portfolios of different sizes, time periods, and to indices.

Decarbonization (continued)

Engaging with Managers to Reduce the MIP's Carbon Footprint

During 2021, the OOI engaged with the MIP's external investment managers that invest in publicly listed equity portfolios. The objectives were threefold: to communicate McGill's commitment to SRI, to promote more awareness around carbon measurement and reporting and to encourage carbon reduction. These discussions resulted in the exclusion or reduction of holdings with relatively high carbon emissions and closer monitoring of carbon emissions among the MIP's managers.

Engagement Process



The carbon assessment is undertaken on a quarterly basis. It involves a thorough analysis, involvement and open communication with investment managers.

Some Notable Outcomes

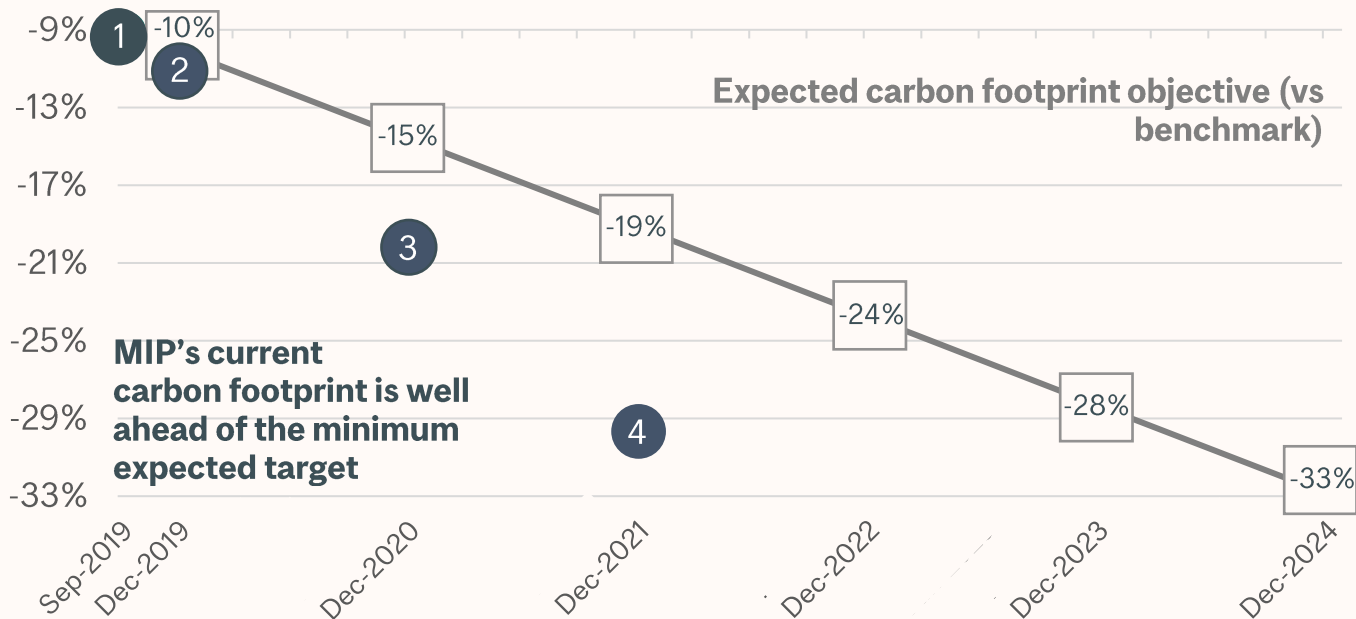
- 1 A manager implemented a carbon constraint on its investment mandate in order to exclude excessively high-emitting stocks.
- 2 A manager invested in sustainable infrastructure in order to decrease its carbon footprint.
- 3 A manager committed to drastically reduce its carbon footprint, resulting in a 76% decrease over the year.

Decarbonization (continued)

MIP Listed Equity Carbon Footprint Results

The Investment Committee has undertaken to achieve and sustain a carbon footprint for the MIP listed equity portfolio at least 33% below its benchmark by 2025. Through continuous engagement with managers and strategic investment decisions, as at December 31, 2021, the portfolio's carbon footprint stands at 30% below benchmark, well ahead of the projected reduction expected at that point in time. Throughout the year, the carbon footprint fluctuated between 12% and 30% below benchmark.

The Utilities and Materials sector includes most of heavy emitters, for example companies that generate electricity from burning coal or from producing cement. Fossil fuel companies may be affected by the decarbonization strategy. However, such companies are not the ones with the highest scope 1 & 2 emissions. To illustrate this: there is no Energy company in the top 20 carbon emitters of the MSCI ACWI index. Nonetheless, the carbon reduction strategy has allowed the University to reduce exposure to the Carbon Underground 200™, a list of the 100 top coal and 100 top oil and gas publicly traded companies, to a minimal level of 1.3% of the MIP.



Sept-2019	Dec-2019	Dec-2020	Dec-2021	Dec-2024 Goal
1	2	3	4	
-9% vs benchmark	-11% vs benchmark	-20% vs benchmark	-30% vs benchmark	-33% vs benchmark

Impact Investing

What Are Impact Investments?

Impact investments are made with the joint objective of generating positive, measurable social and environmental impact alongside a financial return.

The impact investing market provides capital to address the world's most pressing challenges such as the United Nations Sustainable Development Goals, which encompass sustainable agriculture, climate change mitigation and adaptation, affordable housing and healthcare, and education, among others. It is expected to become a broader and deeper market in the coming years, with more and more investors turning their focus to real-world outcomes.

Impact investments should not be confused with ESG-based investing which is to incorporate ESG factors in the investment process without necessarily aiming to tackle a specific environmental or societal issue.

**3.6% or \$72.4M
of the MIP's assets are
Impact Investments
(5.0% or \$102.4M with
unfunded commitments¹)**

**McGill committed 5% of the
MIP to low-carbon funds and
funds that actively contribute to
the decarbonization of the MIP
by 2025.**



Types of Impact Investments Considered by the Investment Committee

Listed Impact Equity

Investments through external equity managers which hold stocks of companies that derive most of their revenues from sustainable solutions

Alternatives Impact

Exposure through private funds to either water treatment, alternative energy, sustainable real estate, renewable energy infrastructure, etc.

Fixed Income

Investments in green bonds (financial instruments specifically marketed to raised money for climate and environmental projects)

¹ Money that has been legally engaged by McGill towards private funds but not deployed yet. In general, commitments in private funds are deployed over a one to five year period.



Impact Investing (continued)

Tangible Measurable Outcome: Global Renewable Energy Fund (USD \$25M commitment)

The Global Renewables Fund (GRF) includes investments in solar generation and wind power assets.

Minamata's project (top picture) has been in operation since August 2021. It is expected to generate savings of 22.6 kilotons of CO₂e per year, equivalent to taking around 5,000 passenger vehicles off the road.

Since inception, Madison's portfolio (bottom picture) enabled the production of over 97M kilowatt-hours of renewable energy, avoiding 69,240 metric tons of CO₂. This is equivalent to taking more than 15,000 cars off the road for a year.



Note: Information provided by the manager.
Emissions equivalencies calculated using United States Environmental Protection Agency
Equivalencies Calculator (2021).

ESG Integration

Manager selection is influenced by the firm's ESG analysis capabilities and by the carbon footprint of their standard portfolios. Incorporating ESG factors in manager selection and monitoring may provide greater insights into areas of potential risk and opportunity that may affect the value, performance and reputation of the investments made by external investment managers.

UNPRI signatories commit to the following principles:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

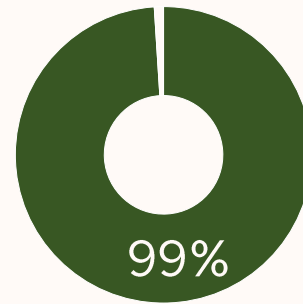
Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

% of assets managed by managers that have either adopted an ESG policy or that are signatories of the UNPRI as at December 31, 2021



ESG Monitoring

On a quarterly basis, the OOI receives an ESG monitoring report produced by MSCI's ESG Impact Monitor, a provider of investment decision support tools worldwide. The report highlights MIP's equity holdings that are involved in moderate to high environmental controversies. These holdings are subject to discussions with investment managers.

2021 Results

As at December 31, 2021, only one security was identified with a moderate environmental controversy by MSCI ESG system. The OOI discussed the matter with the investment manager and was reassured that it had already been addressed by the company's management.

Engagement

Engagement is a responsible investment strategy that enables investors to use their voices as shareholders to support better corporate sustainability policies and practice, and drive positive change. It enables investors to build a constructive dialogue with corporate boards and management.

In 2021, McGill appointed SHARE as its shareholder engagement service provider to engage with the MIP's portfolio companies on climate-related issues on its behalf. Through SHARE, McGill became one of the first members of the University Network for Investor Engagement (UNIE), a university-led initiative that amplifies the voices of shareholders in addressing the drivers of climate change.

Throughout the year, SHARE has engaged with numerous companies on topics such as reducing greenhouse gas emissions, sustainable finance, political spending and oversight, and ensuring a just transition. These considerations align with the issues raised by Climate Action 100+, a global engagement initiative of which SHARE is a member, so that investors speak with a consistent message and that engagement efforts are coordinated globally to maximize impact.

Engagement Fostering Positive Change



In 2021, SHARE engaged with Suncor Energy, one of Canada's largest Oil Sands producers. SHARE, with fellow investors in Climate Action 100+ held multiple meetings with Suncor's senior management and board of directors in 2020 and 2021. Engagement priorities included: net-zero commitment with interim milestones; disclosure of and targets to reduce GHG emissions across all relevant scopes of the company's operations and activities; and aligning executive compensation.

In May 2021, Suncor set emissions reduction targets of 10 million tons per year (34%) by 2030, becoming the first Canadian energy company to set absolute emissions reduction targets as opposed to 'emissions per barrel'. The company also disclosed its scope 3 emissions for the first time and committed to a capital spending plan focused on "carbon competitiveness" rather than building new projects.

Negative Screening

Negative Screening is another tool investors may use as part of their responsible investment practices. Negative Screening is the exclusion of companies that do not comply with specific pre-set social or environmental criteria.

The Green Century Fund

In 2017, the Investment Committee established a fossil fuel free fund that is available to McGill's donors. In constructing this portfolio, the external investment manager applies a rigorous screening to exclude companies directly involved in extracting, processing or transporting coal, oil or natural gas, as well as companies included in The Carbon Underground 200™, i.e. a list of the 100 top coal and 100 top oil and gas publicly traded companies.

In 2021, in order to promote the McGill's Green Century Fund to the donor community, McGill's University Advancement (UA) included training on the fund as part of its onboarding process, with over 10 new employees during the year. As branding efforts continue, the Green Century Fund increasingly generates interest among donors. The Green Century Fund had \$7.7M in assets under management as at December 31, 2021.

SRI Fund Managed by McGill's Students

In 2017, the Investment Committee approved an initial funding of \$400,000 to an SRI Fund managed by Desautels Capital Management, a student-run registered investment management firm. In 2019, an additional commitment was made in the fund totaling \$1.55M. Fossil fuel investments, among other environmental and social criteria, are excluded from the fund's investment universe. As at December 31, 2021, the SRI Fund had \$3.1M in assets under management.



\$10.8M Amount invested in
fossil fuel free funds
as at December 31, 2021

Institutional Leadership

As an institutional investor, McGill takes pride in its efforts in sustainability by leading dialogues with large investment firms and by exchanging ideas with responsible investors.

ESG Training:

87

hours

As SRI practices are evolving at a rapid pace in the investment industry, the OOI is keeping abreast of the latest developments in this area. In 2021, the OOI received more than 87 hours of training on SRI-related topics.

Investing to Address Climate Change: A Charter for Canadian Universities

McGill sits on the advisory committee created by university signatories of the [Climate Charter](#) to share SRI best practices and ideas. In October, McGill presented to its peer universities its success in meeting the objectives of the Charter.

Bishop's University
Climate Charter Technical Committee
McGill Office of Sustainability
Macdonald Campus Student Society
Pension Administration Committee
Pension Investment Committee
Students' Society of McGill University

Throughout the year, the MIP's responsible investment practices were shared with the McGill community. Presentations were made to the McGill Office of Sustainability (MOOS), the Macdonald Campus Students Society (MCSS), the Students' Society of McGill University (SSMU), the Pension Administration Committee (PAC) and the Pension Investment Committee (PIC). Moreover, the OOI presented McGill's responsible investment practices to Bishop's University in April and to the Climate Charter Technical Committee in October.

Hiring of a Governance, Compliance & ESG Analyst

In April 2021, the OOI hired a Governance, Compliance & ESG Analyst. This newly created role supports the OOI in meeting McGill's eight commitments pertaining to SRI and the development of enhanced SRI practices.

Reporting

The Investment Committee regularly receives reports on different key metrics related to, among other things, the MIP's performance, holdings and SRI practices. The reports listed below are made public and are posted either quarterly or annually on McGill's website.

MIP's Holdings

A list of publicly traded securities is published quarterly.
<https://www.mcgill.ca/investments/holdings>

Quarterly Report on Endowment Performance

A quarterly report on performance and asset allocation is publicly available.
<https://www.mcgill.ca/investments/quarterly-reports>

Annual Report

The annual report contained detailed information related to the MIP's activities, its asset allocation, its performance and other administrative matters.
<https://www.mcgill.ca/investments/annual-reports>

Investment Committee Report on SRI

The SRI Report is presented annually by the Investment Committee to the Board of Governors. The report will be made public on McGill's website.

Review of SRI Practices

A thorough review of the University's current SRI practices will take place at least every five years in order to determine the need for any adjustments or further SRI actions, as may be advisable, in relation to the MIP.

Additional Information

2019 CAMSR Report to the Board of Governors (December 5, 2019):

https://www.mcgill.ca/boardofgovernors/files/boardofgovernors/13_gd19-29_camsr_report.pdf

Implementation Plan Related to the CAMSR Report Recommendations (April 23, 2020):

https://www.mcgill.ca/boardofgovernors/files/boardofgovernors/06_gd19-50_camsr_report.pdf



McGill

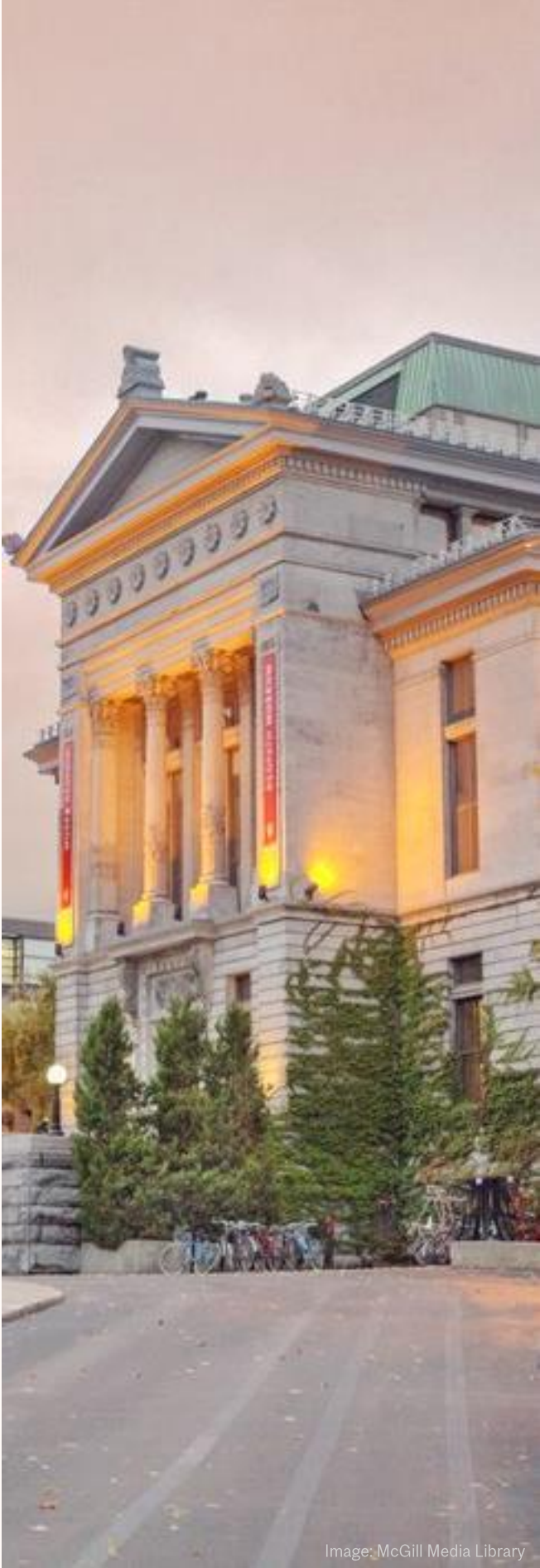


Image: McGill Media Library