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The following item arises from the meeting of the Investment Committee of March 16, 2021. It is presented to the Board of Governors for its information.

I. FOR THE INFORMATION OF THE BOARD OF GOVERNORS**1. Annual Report on Socially Responsible Investing (SRI) [IC20-24]**

The Committee approved, for submission to the Board of Governors, the 2020 Report on Socially Responsible Investing (SRI). The full report is available on the Secretariat's webpage.

At its meeting of December 5, 2019, the Board of Governors approved 8 recommendations contained in the [CAMSR Report](#), following which, CAMSR, in collaboration with the Investment Committee, worked to develop an implementation plan to operationalize the recommendations. The [implementation plan](#) was approved by the Board of Governors at its meeting of April 23, 2020.

Recommendation #6 involved a commitment to present to the Board and publish, annually, a report on SRI, including:

- % of assets managed by managers with an ESG policy and/or as signatories of the UNPRI
- MIP carbon emission relative measures
- Impact investment exposures
- Such other initiatives as may be relevant to SRI activities

In order to operationalize this recommendation, the Board approved that the Investment Committee would present to CAMSR and to the Board of Governors, and publish annually, a report on SRI beginning in Spring 2021, following the MIP's year-end (December 31, 2020).

The first Investment Committee Report on Socially Responsible Investing is attached as Appendix A. It demonstrates the University's commitment to SRI, outlining key accomplishments across all asset classes of the MIP.

The Committee to Advise on Matters of Social Responsibility (CAMSR) received the Report for information at its meeting on March 18, 2021.

END
April 2021



McGill



2020 Investment Committee Report on Socially Responsible Investing

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► Message from the Chair of the Investment Committee

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

Important progress has been made over the past five years in developing a framework for managing the MIP's Socially Responsible Investing practices. Environmental, Social, and Governance (ESG) considerations are today key elements of our investment policies and manager selection process. As part of its regular performance reviews, the Investment Committee diligently monitors the compliance of its investment managers with respect to ESG and United Nations-supported Principles of Responsible Investment (UNPRI). In this regard, some 99% of the MIP's managers have now adopted ESG policies and/or are signatories of the UNPRI. These strategies are well-integrated into the MIP.

Best practices in Socially Responsible Investing continue to evolve and McGill has accordingly adopted a pro-active approach. During 2019 and 2020, the Committee to Advise on Matters of Social Responsibility (CAMSR) teamed up with the Investment Committee and the Office of Investments in a united effort to keep McGill at the forefront.

This collaborative effort has produced a blueprint that will guide McGill's sustainable investment activities with a focus on climate change. The dual objectives are to support the common good while maintaining the integrity of the MIP's long-term investment goals and risk/return profile. Research has determined that constraints on investment portfolio choices reduce opportunities for diversification. They may also increase diversifiable risk without compensatory return. Therefore, we must be prudent in our approach and avoid becoming overly restrictive as this may result in sub-optimal outcomes.

Our thanks go to the members of our Investment Committee, CAMSR, and the staff of the Office of Investments under the leadership of Sophie Leblanc, CIO & Treasurer, for their dedication to this initiative and the quality of the analysis and implementation that has ensued. With the support of our Board of Governors, the senior administration and the McGill community, the MIP has established itself as a leader in the area of Socially Responsible Investing.

Joel Raby
Chair of the Investment Committee

► Introduction

The following report demonstrates McGill University's commitment to Socially Responsible Investing practices. It outlines key accomplishments across all asset classes such as equities, fixed income, real estate, infrastructure and private investment funds.

The Investment Committee appreciates your interest in the investment practices adopted by McGill and hopes that you will find the information contained in this report insightful.



► MIP Investment Framework

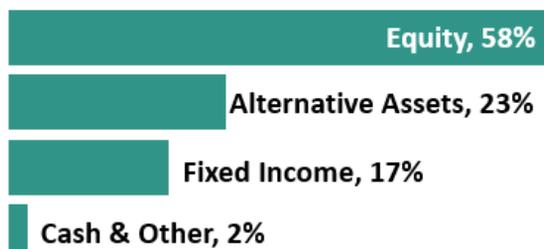
With the objective of optimizing return and protecting capital over the long term, the Investment Committee has selected strategies and external investment managers to form a well diversified portfolio comprised of exposures to various geographies and industries.

MIP Market Value

\$1.8B

As at December 31, 2020

MIP Asset Allocation



Characteristics of MIP's investment mandates

9 segregated mandates totaling \$666M

- Daily liquidity
- Tailored mandate with McGill

5 hedge funds totaling \$227M

- Limited liquidity; diversification benefits
- Invests alongside other investors

15 pooled funds totaling \$664M

- Daily or monthly liquidity
- Invests alongside other investors

39 private funds totaling \$275M

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

► Major SRI Initiatives since 2016

Since 2016, the Investment Committee has increasingly been proactive in its consideration of Socially Responsible Investing through concepts and the promotion of integrating environmental, social and governance (ESG) factors into the investment processes of McGill's investment managers. The Investment Committee considered community's demand by establishing a specific fund option for donors interested in excluding fossil fuel companies in their investment.

Establishment of a Fossil Fuel Free Fund

Fossil Fuel Free Fund available to McGill's donors

- Since March 2017 -

An initial funding of \$5M was made into a fossil fuel free fund strategy comprised of a well-diversified global equity portfolio that aims to provide long-term capital growth by investing in companies across a range of sectors but **excluding securities of companies directly engaged in the extraction, processions and transportation of fossil fuels such as coal, oil and natural gas**. Over the years, the initial funding has grown to **\$6.5M**.

SRI Fund Managed by McGill's Students at Desautels Capital Management

In June 2017, the Investment Committee approved an initial funding of \$400,000 to a Socially Responsible Investment Fund managed by Desautels Capital Management, a student-run registered investment management firm. During 2019, an additional commitment was made in the fund totaling \$1.55M.

This fund was established to offer McGill students enrolled in the Investment Management program at the Desautels Faculty of Management an opportunity to learn about Socially Responsible Investing. As of December 31, 2020, the asset under management totaled **\$2.7M.**

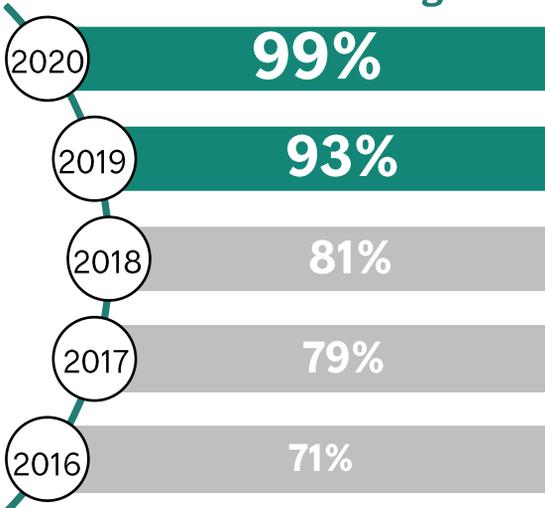
MIP investing in a
Socially Responsible
Investment Fund
managed by
McGill's students

ESG Integration by the MIP's Investment Managers

Several years ago, the integration of ESG factors in the investment manager selection process was not the norm. In the context of the increasing focus on ESG considerations, our investment managers were urged to modify their investment selection process to consider risks associated with ESG issues.

Within the framework of their investment mandate, the Office of Investments has encouraged the MIP's external investment managers to adhere to an ESG policy and/or to become signatories to the United Nations of Principle for Responsible Investment (UNPRI).

MIP ESG integration by investment managers



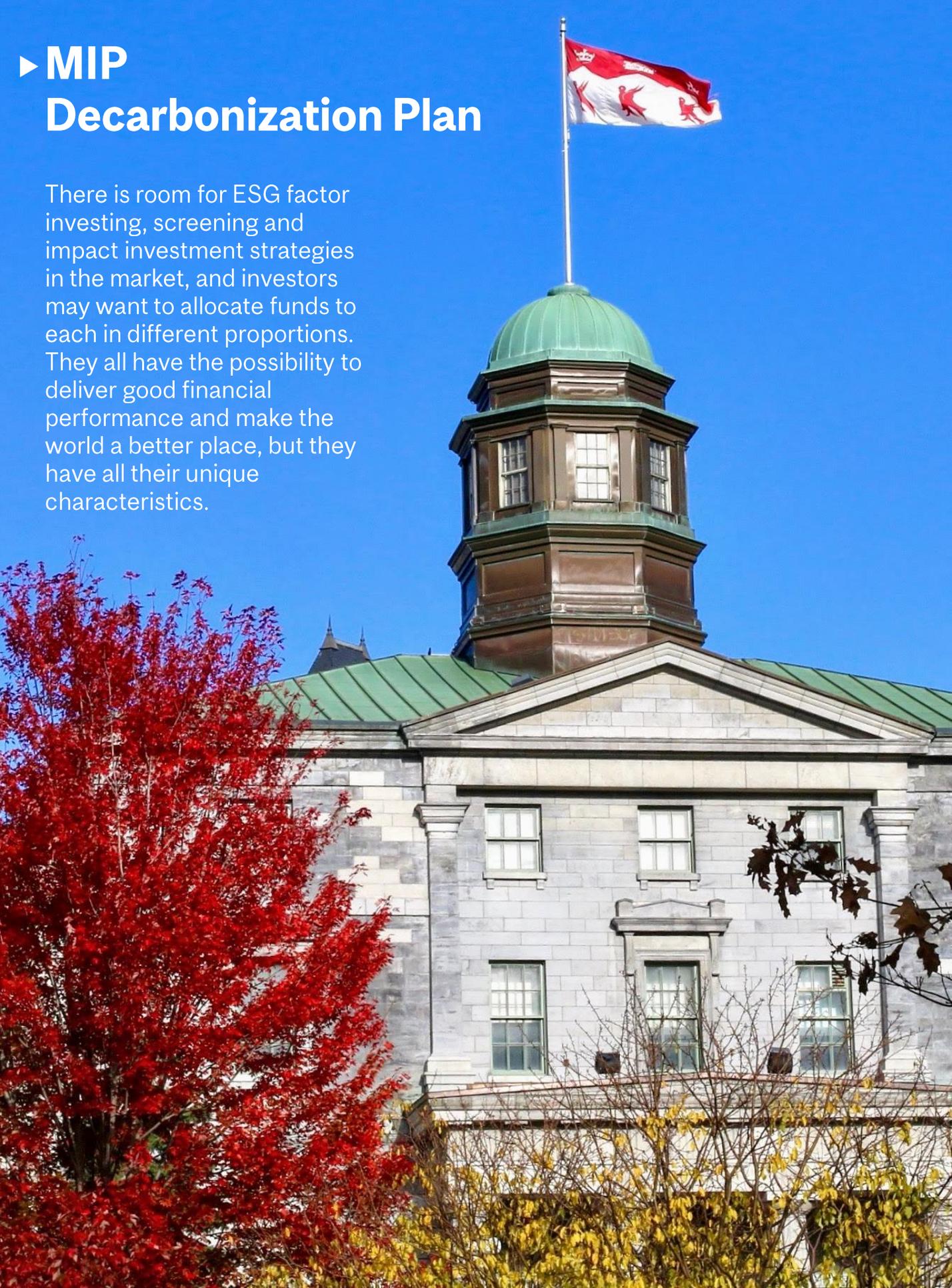
In 2016, the Office of Investments performed the first assessment of its investment manager's practices and determined that 71% of the assets were managed by managers who had either adopted an ESG policy and/or were signatories to the UNPRI. Since then, through targeted actions, this percentage grew to **99%**.

The remaining 1% is attributable to investments made in private funds more than 10 years ago that will soon reach maturity.

► MIP

Decarbonization Plan

There is room for ESG factor investing, screening and impact investment strategies in the market, and investors may want to allocate funds to each in different proportions. They all have the possibility to deliver good financial performance and make the world a better place, but they have all their unique characteristics.



► 2019 CAMSR Report Recommendations

The activities of the investment industry encompass a variety of practices focusing on developing and promoting SRI approaches. Through CAMSR's consultations with subject matter experts and investment professionals, it became apparent that many large investors in Canada have been focusing on integrating ESG factors into their investment processes, reducing the carbon footprint of their investments, promoting greater shareholder engagement (a form of dialogue between investors and the firm's management and/or directors), and on impact investing.

The Board of Governors, on the recommendation of CAMSR, approved eight recommendations in December 2019 that can be consulted at:

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

In addition, at its April 2020 meeting, the Board of Governors approved an implementation plan supporting the operationalization of the CAMSR recommendations, including targets, metrics and timeline. The Implementation Plan related to the CAMSR Report Recommendations is available here:

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

During 2020, as illustrated herein, the Investment Committee made excellent progress on the implementation of the eight CAMSR recommendations approved by the Board of Governors.

► Amend the Statement of Investment Policy

Incorporating ESG in the MIP's Statement of Investment Policy

- June 2020 -

The Investment Committee has recommended to the Board of Governors the inclusion of the ESG considerations in the core of its investment objective. As ESG issues have grown in prominence, this addition to the Statement of Investment Policy will ensure that there is a greater focus on ESG when evaluating investment processes and selecting investment managers. Furthermore, the addition of key metrics in a newly introduced SRI section will strengthen the focus on ensuring the ambitious targets by 2025 are achieved. The MIP's Statement of Investment Policy as approved by the Board of Governors can be consulted at:

https://www.mcgill.ca/secretariat/files/secretariat/statement_of_investment_policy.pdf

► Reduce Carbon Emissions of the MIP

The Investment Committee has taken steps to ensure that a concrete plan to reduce the carbon footprint of the MIP was established and that proper monitoring was in place for the evolution of the MIP's listed equity carbon footprint. Establishing the right key metrics, measurement tools and the methodology was essential to correctly track the evolution of the portfolio's carbon footprint.

Carbon Emission Measurements

In order to properly and reliably measure the MIP's carbon emission, McGill decided to focus initially on the listed equity portfolios' holdings. In assessing the tools available, it was determined that data for unlisted assets such as private equity and other alternative assets were not readily available.

Carbon emissions are measures that use the company's carbon dioxide (CO₂) emissions which best track the gases that trap heat in the atmosphere labeled as greenhouse gases (GHG). GHG Protocol's Corporate Accounting and Reporting Standard defines the commonly used "scopes" framework to categorize a company's 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 & 2

Data Quality

Most companies are transparent on their GHG emissions. Unlike scope 1 and 2 emissions, scope 3 emissions are not easily estimated and are much more difficult for a company to accurately track.

MSCI as the Data Provider

The Investment Committee has selected MSCI as the data provider for its carbon footprint analysis. MSCI is a global provider of market indexes and ESG solutions. It has expertise in ESG analysis and carbon footprint measurement.

There are a variety of metrics used by the industry to measure the carbon emissions of investments. The carbon footprint metric selected by McGill is calculated by evaluating the portfolios' tons of CO₂ emissions per USD 1 million of dollar invested (herein defined as tCO₂e/\$M invested). This normalized metric was preferred because it facilitated the comparison of portfolios of different sizes, time periods, and to indices.

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

Foundation of an Ambitious Target

Several scenario analyses were conducted to evaluate various options to reduce the MIP's carbon emissions. There was a need to strike an acceptable balance between maintaining the risk/return profile of the MIP and aligning with McGill's ambition to be a leader in sustainability. The approach led to an ambitious yet attainable target which included a time frame where progress will be measured and reported.

The long-term carbon reduction target set by McGill is in relative terms versus the MIP's listed equity benchmark. This accounts for changes in market conditions that occur over time such as:

Objective:
To sustain, by 2025, an equity portfolio with 33% less carbon emissions versus the listed equity benchmark.

- ▶ Companies' carbon emissions may reduce over time with the potential improvement of climate policies.
- ▶ The fluctuation in the market weight of the most carbon intensive sectors can impact the portfolio carbon footprint
- ▶ The fluctuation in the market capitalization of a company can have an important impact on the carbon metric.

Action Plan and Impacts

In 2020, the Office of Investments engaged with the MIP's external investment managers which invest in publicly listed equity portfolios. The objective was to communicate McGill's commitment to Socially Responsible Investing, promote more awareness around carbon measurement and reporting as well as encourage carbon reduction, especially on carbon intense investment strategies. These discussions resulted in the exclusion or reduction of holdings with relatively high carbon emissions.

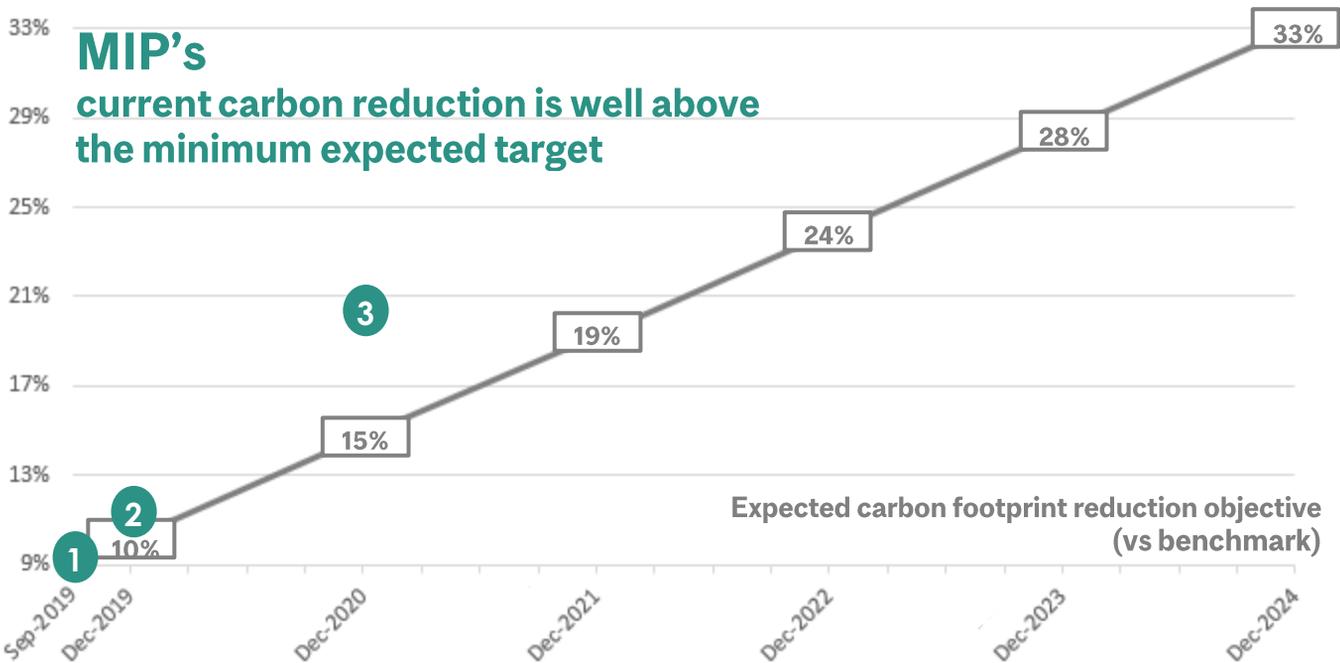
Specific Positive Outcomes

- 1 **Two equity hedge fund managers reduced their carbon emission by more than 80% in 2020.**
- 2 A carbon intensive equity mandate was terminated and replaced by a fund with a materially lower carbon footprint.

MIP's Listed Equity Carbon Footprint Results

The Investment Committee has targeted to achieve and sustain a carbon footprint from its MIP listed equity portfolio of at least 33% below its benchmark by 2025. **As of December 2020, the portfolio carbon footprint stands at 20%, better than the minimum expected reduction at that point in time.**

With the equity portfolio's trading activities and the continual improvement in carbon footprint reporting by MSCI's research platform, the volatility of the carbon footprint measures can be high. However, the early success is indicative that the carbon footprint reduction is both realistic and on track to achieve its target objective.



Progress of carbon emission versus benchmark

Sep-2019

1

9% less carbon intensive

Dec-2019

2

11% less carbon intensive

Dec-2020

3

20% less carbon intensive

Dec-2024

Goal

33% less carbon intensive

► Impact Investing

Impact investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investing is a relatively new investing area but in the coming decade it is expected to become a much broader and deeper market and a continued focus for investors.

Main sectors of impact investing

The Impact investing market is growing and provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, new clean technologies and affordable and accessible basic services including housing, healthcare, and education.

There is a distinction between Impact and ESG-based investing. The former are investments made with a clear set of measurable solutions to global challenges such as the United Nations Sustainable Development Goals. As there are potential environmental and social benefits of Impact investing, McGill has decided to commit 5% of the MIP to low-carbon funds and funds that contribute to decarbonization of the MIP.

Types of Impact Investments the Investment Committee is considering:

Listed Impact Equity:

- Investment through external equity managers who hold stock 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 that are specifically marked to raise money for climate and environmental projects).

**2.7% or \$49.5M of the MIP's assets are Impact investments
(4.4% or \$81.4M with commitments)**

Examples of MIP's Impact Investing

#1 Infrastructure Private Debt Funds

(US \$40M in total commitments; a portion allocated to Impact investments)



Source: AMP Capital

#2 Global Renewable Energy Fund (US \$25M commitment)

Potential Total Fund Impacts

4.8 million tons of CO₂ displaced annually
(1+ million cars taken off the road)

6,500+ GWh of renewable power generated per year

Generating renewable energy to power 550,000+ households

Source: Stonepeak

One of the fund's project is the construction of an offshore wind farm which is contributing to five goals for sustainable development set out by the United Nations¹.



¹ <https://www.un.org/development/desa/disabilities/envision2030-goal3.html>

#3 European Real Estate Fund (€17.5M commitment)

Today, the real estate investment universe offers an established subset of strategies that target and measure environmental outcomes alongside financial ones.

In many instances, green building certifications provide a framework for targeting specific environmental performance indicators and help drive increased efficiency and performance improvements. The MIP's European Real Estate Funds have an impressive track record for achieving high performance green building certifications, including BREEAM, LEED, DGNB and HQE, and almost 100% of those funds have achieved or are actively targeting a certification.

► Integrating & Promoting ESG

Incorporating ESG factors within the MIP's investment processes and ownership practices, may provide greater insights into areas of potential risk and opportunity that may impact the value, performance and reputation of the investments made by the external investment managers.

Manager selection is influenced by the firms' ESG analysis capabilities and by the carbon footprint of their standard portfolios.

99% of the MIP's investment managers have a ESG Policy or are signatories of the UNPRI.

Engagement with Investment Managers

In the search of best-in-class external investment managers, the aim is to identify the ones that have successfully integrated the following activities into their investment processes and policies:

- Assess** Conduct comprehensive assessment of companies through the lens of the companies' ESG related risks and opportunities
- Engage** Encourage companies to increase ESG information disclosure and to adopt relevant governance practices and risk mitigation measures.
Exercise voting rights in accordance with corporate governance.
Take part in engagement initiatives to influence companies to make improvements in specific ESG areas.
- Promote** Promote a Socially Responsible Investing philosophy across the investment industry.

ESG Monitoring and Reporting

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

2020 Result

As at December 31, 2020, approximately 4,000 security holdings were held in the MIP's listed equity portfolio with only one security identified as having a "moderate" controversy as per MSCI's ESG system. The Office of Investments discussed this controversial security held by the investment manager and was reassured that the matter had already been addressed by the company's management.

► Office of Investments Engagement

In 2020, the development of its SRI knowledge has been a key focus for the Office of Investments. To ensure that the team has the most up-to-date expertise in the field, its members have participated in several training sessions and conferences focusing on SRI topics. An additional benefit of these sessions was the ability to build a network of sophisticated investors with similar goals that could possibly result in positive collaboration opportunities.

Over
22 hours
of training &
conferences
in 2020

Benefits from SRI Training:

- 1 Learning about SRI strategies put in place by other investors and the various challenges they faced.
- 2 Networking with other like-minded investors, including CIOs of other Canadian Universities.
- 3 Enhanced knowledge of sustainable investing trends, themes, key risks and opportunities.

► Shareholder Engagement

Shareholder engagement is a constructive dialogue between the company's investors and corporate boards.

McGill has committed to a new university-led initiative (referred to as **the University Network for Investor Engagement or simply UNIE**). This collaborative effort will leverage McGill's power as an institutional investor to meaningfully address the drivers of climate change.

Investors across North America have used shareholder engagement to urge their investee firms to set meaningful greenhouse gas reduction targets, eliminate wasteful practices, and reduce negative impacts on the environment. Consequently, shareholder engagement can play a significant role to fight climate change. The Office of Investments has decided to appoint:



Shareholder Engagement Service Provider¹

Engaging SHARE aligns with the University Socially Responsible Investing Charter signed by McGill "*Investing to Address Climate Change: A Charter for Canadian Universities*"². The appointment of SHARE addresses one of the key recommendations of the Charter:

"Encourage active engagement with companies to foster disclosure of ESG (including climate) related risks, and adoption of operational practices that reduce carbon emissions and foster ESG-positive behavior more broadly".

¹ Approximately 10 Canadian universities have enrolled to this service in December 2020

² <https://www.mcgill.ca/newsroom/channels/news/mcgill-and-other-canadian-universities-unite-address-climate-change-322848>

► Negative Screening

Negative Screening

Excluding companies that do not comply with specific, pre-set social or environmental criteria

In 2017, the Investment Committee established a fossil fuel free fund that is available to McGill's donor. In order to build this constrained portfolio, the external investment manager applies a rigorous screening excluding companies directly involved in extracting, processing or transporting coal, oil or natural gas, and companies included in The Carbon Underground 200™ (a list of the 100 top coal and 100 top oil and gas publicly traded companies).

In 2020, McGill's University Advancement has begun to actively promote the fossil-free fund (**The McGill Green Century Fund**) and to seek the interest of the donor community to increase allocations to it.

“ Recognizing that a growing number of philanthropists wish to invest in a fund that excludes fossil fuel investments, McGill University is offering a new investment option for donors making an endowment gift of \$100,000 or more. They can now choose to have the funds placed in a segment of the MIP where the holdings are invested in a well-diversified portfolio of global equities that exclude companies that produce or have reserves in fossil fuels, or that generate power using thermal coal. ”

Marc Weinstein

Vice-Principal of University Advancement

► Reporting

The Investment Committee regularly reports different key metrics associated, among other things, with the MIP's performances, holdings and socially responsible practices. Most of these reports 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 on Endowment Performance: The annual report on performance contains detailed information related to the MIP's activities, its asset allocation, its performance and administrative matters. <https://www.mcgill.ca/investments/annual-reports>
- MIP's SRI Report: The SRI report will be presented annually by the Investment Committee to the Board of Governors. This report will be made public on McGill's website.

► Institutional Leadership

The combination of positive influence, leadership and sustainable development in Socially Responsible Investing is paramount because there is a stronger impact when engaging with other market participants such as businesses, investment managers and other investors.

McGill prides itself by its efforts in sustainability by leading dialogues with large investment firms and by participating in group discussions with other investors.

The University has fostered strong collaboration among its peers in the U15 Group of Canadian Research Universities and can use this channel to rally support around diverse initiatives to fight climate change.

One of the initiatives recently led by McGill University and the University of Toronto was to create a charter¹ to tackle the global challenge of climate change. Currently, a group of 15 universities across Canada have unified by pledging to follow the Socially Responsible Investing practices established by the Charter.

McGill
is a signatory of a Canadian
Universities Charter that aims
to tackle climate change.

- June 2020 -

The advisory board members are comprised of high profile and seasoned professionals in Canada: Mark Carney, Pauline D'Amboise, Michael Sabia and Barbara Zvan.

McGill Presented its Decarbonization Plan to other Universities



The Office of Investments had the opportunity to present its SRI analysis and action plan “*Decarbonizing the University Endowment – The McGill University Approach*” to 79 participants from various universities at a Canadian Association of University Business Officers (CAUBO) organized webinar.

CAUBO is a non-profit organization focused on providing development and learning opportunities to higher education administration and represents over 100 universities and affiliated colleges.



The Office of Investments also presented its action plan towards carbon emission reduction in the U15 conference held in Calgary in January 2020. The presentation was well received by participants and allowed McGill to engage in a variety of discussions with its peers on this topic.

► Progress Tracker

Implementation status as of December 31, 2020 of the eight recommendations contained in the 2019 CAMSR Report:

1. Decarbonization		<p>Target: Minimum of 33% less carbon intensive than its benchmark, on a consistent basis, by 2025.</p> <p>Currently, the MIP listed equity portfolio stands at 20%, better than the December 2020 objective</p>
2. Impact Investment		<p>Target: Minimum of 5% by 2025.</p> <p>Including commitments, 4.4% of the MIP's assets are in impact investments which is more than the December 2020 objective</p>
3. Screening	In progress and on track	<p>McGill's University Advancement has launched a branding effort, at the end of October 2020, to increase investment in the fossil fuel free fund</p>
4. Engagement		<p>Appointment of SHARE as a shareholder engagement provider.</p> <p>ESG integration: 99%</p>
5. ESG Integration		<p>Statement of Investment Policy was amended in June 2020 to reflect ESG goals and objectives</p>
6. Annual Reporting		<p>An annual SRI report will be presented to the Board of Governors and published annually</p>
7. SRI Review		<p>A review of the current SRI practices has been added to the Board of Governors' calendar of business in Spring 2025</p>
8. Institutional Leadership		<p>In 2020, McGill signed a charter to address climate change and presentations were made to CAUBO & U15</p>

► 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



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