

# Report of the Task Force on Social Responsibility in Investing

## Message from the Chairs

In August 2024, two related but distinct Task Forces were launched. The Task Force on Social Responsibility in Investing (TFSRII) was assembled to examine the University of Waterloo's Responsible Investment Policy and related policy framework with a lens on social factors. At the same time, the Task Force on Principles for Institutional Partnerships (TFPIP) was created to recommend principles to ensure a consistent and transparent approach to partnerships across the University in alignment with our vision, mission and values.

The resolve to begin this work was underscored by members of the University community raising issues for the University to consider related to current global conflicts. The work of both Task Forces was grounded in a desire to increase transparency and to hear the voices of the whole community.

While the origins and processes for the Task Forces share similarities, they had different scopes and remits. The TFSRII had the task of reviewing and making recommendations on matters relating to responsible investing, which are embedded in existing Board of Governors processes, policies and delegated responsibilities. The TFPIP's scope was somewhat broader, given its remit to propose a unified approach and common terminology around institutional partnerships, which are currently managed in a decentralized manner.

An example of how the organizational context impacted the drafting is the definition of "human rights" in each of the reports. For the TFSRII, "human rights" is defined by the UN Principles for Responsible Investment, to which the University became signatory when it incorporated environmental factors into its investment policy a few years ago. Because the TFPIP mandate encompasses a wide range of activities and processes, this Task Force took a different approach, referencing all international human rights treaties to which Canada is a signatory.

On behalf of the two Task Forces, we want to thank the members of the University community for taking the time to share their feedback and concerns with us whether through the webform or at one of our feedback sessions. The feedback we received informs the Principles and Recommendations articulated in our respective reports.

As Chairs, we also want to thank members of the Task Forces for the time, care and work they devoted over the past several months to the development of these reports. We also

wish to thank the resources across campus for the help and support they provided to this important work.

Peter Barr  
Chair, Task Force on Social Responsibility in Investing

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Co-Chairs, Task Force on Principles for Institutional Partnerships

## Executive Summary

The University of Waterloo established the Task Force on Social Responsibility in Investing (TFSRII) in 2024 to review and enhance its Responsible Investment Policy, focusing on social factors. This initiative was driven by concerns from the University community about recent global conflicts and strives to increase transparency related to investments. The TFSRII was tasked with:

1. Reviewing current investment disclosure practices.
2. Conducting an environmental scan of responsible investing policies at peer institutions.
3. Examining the Responsible Investment Policy with a focus on social factors.
4. Making recommendations to develop a process to receive and address expressions of concern related to University investments.

### KEY FINDINGS:

- The University community expressed a strong desire to integrate ESG (Environmental, Social, Governance) factors into investment decisions, with 74 per cent of online respondents supporting this approach.
- Based on community consultations and the environmental scan of other Canadian universities, the Task Force identified priority social factors to be included in the Responsible Investment Policy: international human rights (including anti-oppression and anti-racism), Indigenous reconciliation, equity and diversity and adherence to the UN's Convention on Certain Conventional Weapons).
- As further detailed in this report, the decision to integrate these priority social factors into investment decision making is based on the belief that this approach is expected to enhance investment return and reduce the risk of loss.
- The Task Force emphasized the importance of transparency in investment disclosures.

### RECOMMENDATIONS:

1. **Investment disclosure Practices:** Disclose all investment holdings annually, including the percentage of each holding of the endowment's or pension's total market value, and provide context about the investment approach and fiduciary responsibilities.
2. **Priority social factors:** Update the Responsible Investment Policy to include as priority social factors international human rights including anti-oppression, anti-racism, Indigenous reconciliation, equity and diversity and adherence to the UN's convention on certain conventional weapons. Request and monitor reporting from investment managers on their incorporation of these social factors into their investment decision making.
3. **Feedback process:** Establish a policy to proactively collect and review stakeholder feedback related to endowment investments every three years, including a

feedback loop with stakeholders on the feedback received and how it has been considered and used.

4. **Policy updates:** Revise the Responsible Investment Policy to reflect the new priority social factors, expand reporting requirements and formalize the proactive feedback approach.

The recommendations reflect the Task Force's commitment to balancing transparency, consideration of social factors, and fiduciary duty for the University, pension plan members and other beneficiaries with addressing the concerns of our community members.

## Introduction

### **BACKGROUND:**

In 2022, the University of Waterloo Board of Governors (Board) approved a [Responsible Investment Policy](#). This policy continues to form part of a broader [responsible investing framework](#) at the University of Waterloo (the University) which includes commitments to integrate Environmental, Social, Governance (ESG) factors in the investment decision making process. In 2020, both the University and the Pension Plan for Faculty and Staff (the Pension) became signatories to the United Nations supported Principles for Responsible Investment (UN PRI) which requires participation in a comprehensive annual reporting framework. As a signatory to the UN PRI and to the Responsible Investment Charter for Canadian Universities, the University has committed to incorporating ESG factors into its investment decision making.

When the Responsible Investment Policy was approved in 2022, climate change risk was designated as a priority. However, it was recognized at that time that further consideration would be required relating to other ESG factors such as social justice, equity, diversity and inclusion and their potential consequential impact on investment risk and returns.

Concerns raised by the campus community early in 2024 provided the impetus to form this Task Force and follow through with addressing social factors in our investment decision making.

The University presented the University of Waterloo Values Statement to the Board in June 2024. The [Waterloo Values](#) underscore our existing and ongoing commitment to social factors such as decolonization, Indigenization, inclusivity, equity, anti-oppression and anti-racism. Recent global events have hastened the need to examine social factors more deeply and their intersection with investments held by the University.

The work of this task force is a progression of the University's commitment to enhance its responsible investment practices.

The Task Force on Socially Responsibility in Investing (TFSRII) was established alongside the Task Force on Principles for Institutional Partnerships (TFPIP) as per a commitment made by President Vivek Goel in May 2024. Throughout the summer term, the executive sponsors — the Vice President, Research and International and Vice President, Administration and Finance — worked to select members for the two Task Forces.

Selection criteria for the Task Force on Social Responsibility in Investing included:

- Demonstrated sound judgment and critical thinking skills
- Demonstrated experience with one or more of responsible investment, institutional investments and/or incorporation of ESG factors in investment decision making
- Demonstrated significant education in institutional investments an asset
- Experience with Canadian or international sustainability disclosure standards and/or ESG investment-related disclosures by investees is preferred
- Knowledge/experience working with the “S” in ESG is preferred (i.e. knowledge of UN sustainable development goals etc.)
- For faculty, research experience with the subject matter
- Equity, diversity and inclusion criteria, allowing for members to bring lived experiences and diverse backgrounds to bear on these questions
- Diverse representation across the University

Members for both Task Forces were announced in August 2024. The TFSRII membership, noted in Appendix A, includes faculty, staff, students (graduate and undergraduate), a Board representative and community members (alumni) with expertise in these matters. The first meeting of the TFSRII was held in September 2024.

#### **MANDATE:**

The Task Force on Social Responsibility in Investing mandate was to:

- Review existing practices and obligations related to disclosure of the University’s investments;
- Conduct an environmental scan of responsible investing policies and practices at comparator universities insofar as they relate to social factors, disclosure and receipt of expressions of concern;
- Examine the University’s Responsible Investment Policy and related policy framework with a lens on social factors including international human rights and diversity, equity and inclusion and make recommendations on the Responsible Investment Policy as it relates to the definition and contemplation of social factors from an ESG lens;
- Make recommendations on the University’s investment policy framework to address matters related to receipt of expressions of concern in relation to the University’s investments, in accordance with the Responsible Investment Policy.

The TFSRII reflected on its mandate and noted that the goal was to recommend a framework that will inform investment decision-making by the Board and its investment

Committees with responsibility specifically for endowment and pension investments. This framework will guide them in making decisions about engaging with investment managers, and advocating for the responsible investment principles the University stands for in a way that is consistent and transparent. The Task Force achieved this by reviewing the relevant principles currently in action across campus, consulting with the community, reviewing research, best practices and policies of peer institutions and making recommendations to guide how the University manages investments. It is important to note that the mandate does not ask for a review of existing investment asset holdings of the University or Pension, nor investment managers employed, nor make pronouncements on specific investments.

The Task Force acknowledges that incorporating social responsibility in investment decision-making is an emerging area. Formal guidelines and widely accepted measurement standards and related reporting requirements have yet to be determined, adopted and recognized globally. Further, existing pension and investment legislative requirements for fund holders place constraints on the choices available. Despite these constraints, the Task Force is committed to strive for meaningful, tangible recommendations that will address the concerns heard from all stakeholders.

The concerns raised by the campus community — especially students — that led to the establishment of this Task Force also included concerns about the University's partnerships. As such, the Task Force on Principles for Institutional Partnerships was established in parallel. The creation of these two task forces came shortly after the release of the report from the Task Force on Freedom of Expression, which encouraged transparency, including transparency related to the University's investments.

Given the intersecting scopes of these three task forces and their proximity in time, we approached our work with a commitment to ensure sufficient consistency with the work of the other two task forces.

To ensure Task Force members were prepared and had the most current information available to inform their discussions and recommendations, the following education sessions were held:

- The Chairs of the Task Force on Freedom of Expression presented their findings and shared lessons learned;
- An international Human Rights lawyer from Norway, with 11 years of work experience on the Council of Ethics for the Norwegian Government Pension Fund, presented on Ethical Guidelines in Investing and Partnerships from an international perspective;
- A team of Canadian lawyers presented information on the Canadian Legal Context and Integrating Social Factors in Investment Decision Making;
- Unconscious bias training and a reflection discussion was facilitated by a University Equity Officer; and

- University Finance staff provided an overview of the current investment policies and framework, current University and Pension investment asset holdings and investment managers.

### **PROCESS:**

Robust consultation across the University of Waterloo community, as well as the Canadian post-secondary sector, was imperative to inform the work of our Task Force.

For convenience and ease of access, University community members were given opportunities to provide feedback through multiple channels. An email invitation to submit written comments was circulated jointly. This invitation was sent to all staff, students and faculty and was shared in employee newsletters. Ninety-four responses were received from the following stakeholders:

- Students – 39
- Faculty – 27
- Staff – 21
- Students and faculty/staff – 6
- Unidentified – 1

Of these responses, 26 per cent expressed that they do not want social factors considered under the University’s Responsible Investment framework, and 74 per cent of respondents expressed a desire to address ESG factors. The most common mentions in these responses included international human rights, diversity, equity and inclusion, and environmental considerations. All responses were shared with and reviewed by the Task Force members and discussed in detail at TFSRII meetings.

An in-person feedback forum was also held on campus, and all campus community members were invited. This in-person venue gave our Task Force members the chance to interact directly with students, staff and faculty, to hear their viewpoints first-hand and to ask clarifying questions to inform the recommendations.

Representatives of both Task Forces also met with the Waterloo Undergraduate Student Association (WUSA) to hear the results of their recent student referendum on Responsible Partnerships and Investments. In this referendum, undergraduate students were asked two questions, the second of which was relevant to this Task Force:

- “Should the University of Waterloo review its partnerships and investment portfolios to ensure alignment with ESG principles and Amnesty International, to prioritize institutions that demonstrate a commitment to human rights, peace, and international law in a manner that is timely and transparent to the undergraduate student?”

A total of 6,720 students cast a vote on this question, which represents 20.45 per cent of eligible undergraduate students across the University, and 5,957 (88.60 per cent) voted “yes”.

The TFSRII conducted environmental scans to compare responsible investing policies and related procedures at other Canadian universities. Task Force members focussed on the degree to which ESG factors, particularly social factors, were noted, monitored and reported by comparator institutions. All Ontario U6 universities were polled to inquire directly about their experience handling inquiries related to social responsibility in institutional investing. For universities that have implemented a process for accepting and responding to such inquiries related to their investments, Task Force resources sought feedback from these universities on their experience with their process to inform the work of the Task Force.

## Mission and Values of the University of Waterloo

[The University of Waterloo's mission](#) is to advance learning and knowledge through scholarship, teaching and research, nationally and internationally, in an environment of free enquiry and expression. The University of Waterloo Values Statement, developed through a process which included extensive consultations with the Waterloo community, was endorsed by the Board in 2024. At the same time, the Board endorsed clearly articulated institutional “Imperatives,” which serve to ground our values.

Waterloo's Values are to think differently, act with purpose and work together.

Waterloo's Imperatives, which ground our values, are as follows:

- Uphold Waterloo's leadership and excellence in education, scholarship, innovation and entrepreneurship
- Ensure the physical and mental health and well-being of our students and employees
- Embrace decolonization, Indigenization, inclusivity, equity, anti-oppression and anti-racism
- Co-ordinate and collaborate across disciplinary and organizational boundaries

Our Mission, Vision, Values and Imperatives guide the work we do as an institution and how we interact with stakeholders locally and abroad. Another factor that guides our endowment and pension investments are legal requirements, which are summarized in the following two sections.



## Investment Policy Framework

### **INTRODUCTION:**

As stated in the University's Responsible Investment Policy, the University of Waterloo's Board of Governors has responsibility for oversight of the investments held by the University, including the endowment fund and in addition, for the investments held by the registered pension plan, of which the University is the plan sponsor and administrator. The Board exercises its oversight responsibility for the endowment and the registered pension investments (the Funds or, individually, the Fund), primarily through three Board Committees including the Finance & Investment Committee, the Pension & Benefits Committee and the Pension Investment Committee (the Committees or, individually, the Committee).

The endowment and the pension funds include passively managed institutional pooled funds and actively managed institutional investment funds. Both the pension and endowment funds also include a small number of direct investments and the current responsible investment policy applies to these investments as well.

These Funds are generally managed by external investment managers of institutional pooled fund investments.<sup>1</sup> Small institutional investors like the University of Waterloo typically invest their funds along with other small institutional investors into one larger pool of funds. The University selects one or more investment managers and one or more of the investment managers' institutional pooled funds for each asset class within the Fund. The investment managers make all investment decisions for the institutional pooled funds. Thus, the University is a manager of investment managers. Influence over the investments is exercised via investment manager and institutional pooled fund selection as opposed to individual investment holding selection. This investment approach places significant constraints on the University's ability to divest of specific investment holdings as doing so in the case of pooled fund investments would require divestment from the entire institutional pooled fund triggering significant impacts on the overall invested assets.

For active investment managers, the Board and its Committees apply ESG factors as part of their manager selection process, which currently includes the climate change mitigation/carbon reduction approach approved for those portfolios in 2022. The decision to integrate ESG factors into investment decisions is based on the belief that this approach is expected to enhance the long-term value of the Funds' portfolios and reduce the risk of loss.

In 2020, both the University and the Pension Plan for Faculty and Staff became signatories to the United Nations supported Principles for Responsible Investment (UN PRI) which

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<sup>1</sup> A glossary of relevant Investment terminology can be found under Appendix B.

requires participation in a comprehensive annual assessment framework. The Committees prefer each Fund's investment managers to also be signatories to UN PRI.

### **FIDUCIARY DUTY:**

The Task Force was provided an education session by a Canadian law firm regarding the fiduciary duties of the University and its Board in managing endowment and pension investments, which is summarized in Appendix C – Fiduciary Duty. For the endowment, the Board has fiduciary duty that the investment decisions be made in the best interest of the University. For the pension, the Board has fiduciary duty to act reasonably, prudently, and exclusively in the best financial interest of registered pension plan members and other beneficiaries. This duty underpins all investment decisions and is aligned with legislative requirements and the governing documents of the Funds. The Board and its Committees are committed to integrating ESG factors into investment decisions to enhance long-term value and reduce risk, ensuring that these decisions are always in the best financial interest of the Funds.

### **RESPONSIBLE INVESTING PRINCIPLES:**

Responsible investing actively incorporates ESG factors into investment decision making and monitors those decisions. As noted above, the University engages active and passive investment managers of institutional pooled funds for the endowment and for the registered pension plan and the active investment managers integrate ESG factors into their investment decision making.

## **Key Recommendations**

The Task Force recommendations are presented below. The foregoing discussion of community input, relevant investment policy frameworks, fiduciary duty and institutional mission have guided the formation of these recommendations. They reflect the Task Force's commitment to balancing transparency, consideration of social factors and fiduciary duty for the University, pension plan members and other beneficiaries with addressing the concerns of our community members.

### **1. Investment Disclosure Practices:**

#### Recommendations

1. Task Force members agreed that the University should disclose all investment holdings, where permitted in agreements with Fund Managers. The disclosure should be prepared for each of the Endowment Funds and the Pension Funds. This investment listing report would not associate holdings with a particular investment manager or institutional pooled fund, but rather

be presented as one overall list for each fund. The disclosure should include the percentage of each holding of the endowment or pension Funds' total market value as at a specific point in time.

2. This should be available on the University's public-facing website.
3. Annual reporting with a time lag is recommended.
4. The disclosure report should include a narrative/preamble about the investment approach through institutional pooled funds and the University's fiduciary responsibilities with respect to investments. This preamble would give readers the appropriate context and summarize progress made during the reporting period against our ESG goals.
5. The names of fund managers and institutional investment funds should continue to be disclosed on the public-facing website. Links should be included to information that the individual fund managers publish online themselves to enable interested stakeholders to easily find as much information as possible about each fund and fund manager.
6. The percentage of active versus passive investments held under each of the Endowment and Pension Funds should also be disclosed as at the date for which the holdings are being disclosed.
7. The Board's Investment Committees should consider the fund managers' willingness and ability to enable the University's public investment disclosure as an additional factor in future selection and monitoring of fund managers.

#### *Rationale for Recommendations*

- The key principle driving the recommendations on disclosure is transparency. This principle was consistently mentioned during both of the stakeholder feedback activities. The Task Force concluded that the University should disclose as much as possible about its investments, while ensuring contractual commitments are met.
- The annual frequency of preparing updated investment-related disclosures is recommended, considering the holding periods/frequency of investment turnover within the institutional pooled funds, comparator institution practices and the administrative work required to prepare such reports.
- The Task Force considered whether it would be helpful to only disclose investments above a certain materiality threshold (i.e. above a certain dollar amount or above a certain percentage of each investment pool); members discussed that in general most holdings would be a small percentage of the total investment pool and therefore the conclusion was that all holdings should be disclosed.

## 2. Priority Social Factors to incorporate into the Responsible Investment Policy: Recommendations

1. The University's Responsible Investment Policy should be updated to include priority Social ('S') factors. The recommended priority S factors, at this time, and their related definitions are:

a. **International Human Rights** are defined by multiple declarations and treaties, but the most fitting definition, in the context of responsible investment, would be that included within the UN PRI - United Nations Principles for Responsible Investing.

*"The idea of human rights is as simple as it is powerful: that people have a universal right to be treated with dignity. Every individual is entitled to enjoy human rights without discrimination – whatever their nationality, place of residence, sex, national or ethnic origin, colour, religion, language or any other status. Human rights are interrelated, interdependent and indivisible".<sup>2</sup>*

b. This definition of International Human Rights is broad. To focus the University's efforts in addressing this area more practically, and responding to its stakeholders' concerns more specifically, the following Statements of Elaboration have been identified as more specific priorities:

**1. Anti-oppression and Anti-racism:** The UN International Bill of Human Rights<sup>3</sup>, to which Canada is a signatory, includes elements such as freedom of religion and beliefs, minority rights, freedom from torture, freedom from slavery, freedom of expression, right to equality before the law, and other rights and freedoms afforded to all individuals.

**2. Indigenous reconciliation:** The UN explicitly addresses indigenous rights and encourages companies to respect and uphold the rights of indigenous peoples. This aligns with the UN Declaration on the Rights of Indigenous Peoples.<sup>4</sup>

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<sup>2</sup>[https://www.unpri.org/introductory-guides-to-responsible-investment/an-introduction-to-responsible-investment-human-rights/12026.article#Defining\\_human\\_rights](https://www.unpri.org/introductory-guides-to-responsible-investment/an-introduction-to-responsible-investment-human-rights/12026.article#Defining_human_rights)

<sup>3</sup> <https://www.ohchr.org/en/what-are-human-rights/international-bill-human-rights#:~:text=The%20International%20Bill%20of%20Human%20Rights%20is%20a%20powerful%20statement,agree%20to%20abide%20by%20them.>

<sup>4</sup> <https://social.desa.un.org/issues/indigenous-peoples/united-nations-declaration-on-the-rights-of-indigenous-peoples>

**3. Equity and Diversity:** Under the UN International Bill of Human Rights<sup>5</sup>, to which Canada is a signatory, the themes of equality, non-discrimination and diversity are addressed. These themes are further reinforced under the UN PRI<sup>6</sup> as a recommendation.

**4. Adherence to the UN's Convention on Certain Conventional Weapons ('UNCCW')<sup>7</sup>:** The [UNCCW](#) is a key international humanitarian law instrument created in 1980 and to which Canada was an original nation signatory. The UNCCW prohibits the use of certain weapons which may be deemed excessively injurious or to have indiscriminate effects.

2. These priority S Factors should apply to both the Endowment and Pension Funds.
3. The University should incorporate these priority S factors in assessment and monitoring of the University's and registered pension's fund managers. Specific requests of existing and future fund managers should include:
  - a. Standardized reporting on ESG issues. The [Global Reporting Initiative](#)<sup>8</sup> for example, could be considered by the Committees in determining the reporting standards;
  - b. Request that reporting on ESG integration, including the University's priority ESG factors noted above, be incorporated in fund managers' quarterly and annual financial reports;
  - c. More specifically, request information from fund managers on their institutional investment fund investee companies regarding adoption of and adherence to relevant norms, standards, and codes of conduct such as, for example, the [UN Global Compact](#), the [UN Guiding Principles on Business and Human Rights](#), the UN Principles for Responsible Investing and the UNCCW.
4. The existing Environmental priorities addressed in the initial Responsible Investment Policy should continue to be a priority. The Task Force recommendations here are in addition to continuing to promote all the goals and objectives identified in the Responsible Investment Policy.
5. The Responsible Investment Policy is currently reviewed annually by the relevant investment Committees and the Board. This annual review should

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<sup>5</sup> <https://www.ohchr.org/en/what-are-human-rights/international-bill-human-rights#:~:text=The%20International%20Bill%20of%20Human%20Rights%20is%20a%20powerful%20statement,agree%20to%20abide%20by%20them>

<sup>6</sup> <https://www.unpri.org/human-rights/diversity-equity-and-inclusion-key-action-areas-for-investors/9393.article>

<sup>7</sup> <https://disarmament.unoda.org/the-convention-on-certain-conventional-weapons/>

<sup>8</sup> <https://www.globalreporting.org/about-gri/>

include a specific review of ESG factor priorities, including the priority S factors recommended here, and consider any relevant revisions of the definitions of the priority factors, as matters evolve.

### *Rationale for Recommendations*

- It is important to state priority S factors in the Responsible Investment Policy. This will guide the University's responsible investment work, direct and inform our relationships and interactions with the University's and registered pension's fund managers and will articulate our priorities explicitly for our stakeholders. It is important that the priorities are listed in a policy-level document that is approved by the Board to reflect their importance.
- The priority S factors articulated here include social factors that the University has already prioritized in practice, as evidenced through its Mission and Values statement, events, communications and operational processes. The Task Force recommended identifying and highlighting existing University commitments on social factors including initiatives that support diversity and equity.
- Including these factors within the Responsible Investment Policy will highlight and reinforce the importance of these existing initiatives and supports ongoing attention and enhancement.
- These priority S factors represent key areas where risk may manifest within the investments. Therefore, we believe that prioritizing these factors will support better risk and return management for the investments. On this basis, the priority S factors are applicable to both the endowment and pension investments.
- On the specific priority S factors recommended:
  - **Internationally recognized Human Rights:**
    - The Task Force heard loud and clear from the University community that internationally recognized human rights should be a priority social factor within the Responsible Investment Policy.
    - The Task Force acknowledges the importance of recognizing international human rights in the context of responsible investing, due to its significant impact on both investment risk and reward.
    - The Task Force wants to highlight that the University is already committed to the United Nations Sustainable Development Goals (UN SDG's). The UN SDG's, adopted by all UN member states in 2015, provide a framework to work towards peace and prosperity for people and the planet. The framework is comprised of seventeen sustainable goals which recognize that ending poverty and other deprivations must work

alongside strategies to improve health and education, reduce inequality and spur economic growth, all while addressing climate change and preserving oceans and forests.<sup>9</sup> This institutional commitment to the UN SDG's and existing initiatives and processes in place across the University should be leveraged to support future actions to address these priority S Factors in the area of responsible investing.

- **Anti-Racism, Anti-Oppression and Indigenous reconciliation:** The Task Force recommended identifying and highlighting existing University commitments on social factors such as initiatives to support anti-racism, Indigenous reconciliation and anti-oppression.
- **Diversity and Equity:**
  - Diversity and Equity factors, particularly those related to gender and race, were highlighted as crucial elements to be included in the Responsible Investment Policy.
  - While inclusion is often importantly considered together with Diversity and Equity, it is difficult to measure and monitor from an investment perspective separately from Diversity and Equity, so this recommendation focuses on these two factors at this time.
  - Diverse and equitable businesses are generally able to outperform due to more resilient business models which leverage broader perspectives and innovation. These businesses experience higher employee engagement levels resulting in lower staff turnover. Companies that fail to prioritize human rights, anti-oppression, anti-racism, Indigenous reconciliation and Diversity and Equity often face reputational damage, consumer boycotts, and growing challenges due to the continuing development and enforcement of human rights and anti-discrimination laws, leading to a potential loss of investor confidence and/or shareholder value.
  - The Task Force discussed the need to align these factors with the UN SDG's, specifically Goals #5 (Gender Equality) and #10 (Reduced Inequalities).
- **Adherence to the UN's Convention on Certain Conventional Weapons:** Since Canada is already a signatory to this UN Convention, these rules should already be applied by

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<sup>9</sup> <https://sdgs.un.org/goals>

Canadian investee companies. As with the other recommended priority S factors, and based on feedback from the community, the Task Force considered it important to highlight that firms producing weapons that are excessively injurious or cause indiscriminate harm are a serious investment risk.

- **Local Human Rights:**
  - Local human rights were acknowledged as already being addressed by existing legal frameworks, such as health and safety regulations, child labour laws, etc.
  - The Task Force agreed that while local human rights are important, the primary focus should be on internationally recognized human rights issues.

### **3. Process for Receipt and Review of Inquiries Related to Investments:**

#### Recommendations

1. The Task Force recommends that the University establishes a policy that defines a process to collect and review, on a periodic basis, stakeholder feedback related to endowment investments.
2. The goals of the policy are to provide:
  - a. A clear process to enable a periodic, proactive collection and review of stakeholder feedback related to the University's endowment investments.
  - b. A transparent process under which such feedback would be reviewed and responded to.
  - c. A mechanism to share clear information on the University's fiduciary responsibility and requirements with respect to endowment investments applicable to consideration of such feedback.
  - d. Efficiency in using University resources to support the process.
3. The Task Force recommends the following approach for this process:
  - a. Feedback collection is proactive: The University initiates a process to hear feedback from its stakeholders.
  - b. Feedback collection is periodic: The University seeks and reviews this feedback every three years and integrates the feedback into investment committee strategic discussions on overall investment performance objectives and asset allocation.
  - c. Feedback collection is informative and actioned: The University and relevant investment committees receive and review this feedback and, where appropriate, incorporate this into interactions with fund managers, either through advocacy with existing managers, screening of new fund managers, or adjustment and/or further elaboration of priority ESG factors.



- d. Feedback collection offers an opportunity for diverse perspectives:  
The University seeks this feedback from all endowment stakeholders including students, staff, faculty, and donors.
  - e. Feedback review and response is transparent: the University shares information with its stakeholders on the feedback it has received and how it has been considered and used.
4. The Task Force recommends that the policy that defines the process for handling investment feedback not be applicable to pension investments at this time, and that this position be revisited in six years. A period of six years is recommended to allow the relevant committees to undertake two rounds of feedback in respect of the Endowment funds. This information will inform future choices.
  5. The Task Force recommends that the policy be reviewed normally every six years based on experience working with the policy and to allow for consideration of best practices and regulatory requirements in effect at that time.

#### *Rationale for Recommendations*

- Having a policy that defines a process for handling feedback related to endowment investments confirms to all stakeholders that the University takes such feedback seriously. It is important that this requirement reside in a policy level document that is approved by the Board to demonstrate the importance and visibility of the process.
- Clarity and transparency on process are key principles informing the need to have such a policy.
- The horizon of three years for feedback opportunities was chosen to align with the University's use of external investment managers to whom the University must form long-term relationships. Changing managers is a significant undertaking with significant transaction and administrative cost.
- The recommendation is to have the policy applicable only to endowment investments at this time for the following reasons:
  - The University endowment funds have a wider stakeholder group including donors, undergraduate and graduate students and employees.
  - All comparator policies reviewed by the Task Force focus on only endowment investments.
- The pension fund stakeholders are more limited to pension plan members and the pension fund has additional legal and fiduciary constraints. The Task Force reviewed policies related to handling inquiries on investments of four comparator institutions and collected detailed feedback from three of these comparators regarding their experience working with their policies to inform its recommendations. The Task Force recommends a policy to collect proactive feedback on endowment investments on a standing periodic basis, which is a different approach from the processes in these comparator policies. The Task

Force view is that an approach to collect feedback proactively on endowment investments on a standing periodic basis, offers an opportunity to hear and consider a broad range of feedback regularly. This will help align receipt of feedback with existing strategic investment review processes to promote more effectiveness and efficiency in considering and addressing feedback.

- Establishing a policy to seek feedback proactively and regularly from stakeholders reinforces the fact that the University values the views of its community and is committed to hearing and addressing their concerns, within the regulatory environment it must operate.

#### **4. Recommended Updates to the University's existing Responsible Investment Policy:**

- In light of the above recommendations, the following updates are recommended within the Responsible Investment Policy:
  1. Add International Human Rights, including the following statements of elaboration, as the new priority social factors under Section 3:
    - a. Anti-Racism and Anti-oppression
    - b. Equity and Diversity
    - c. Indigenous Reconciliation
    - d. Adherence to the UN's Convention on Certain Conventional Weapons
  2. Expand the reporting requirements under Section 7 to include the following:
    - a. Disclosure of the institutional fund managers;
    - b. The percentage of active versus passive investments held under each Fund should also be disclosed as at the date for which the holdings are being disclosed; and
    - c. A list of individual investment holdings updated annually.
  3. Expand Section 8 - Review to link to the recommended policy on soliciting feedback related to endowment investments on a standing periodic basis.

## Appendices

### Appendix A - MEMBERSHIP

Task Force members were selected carefully to ensure diverse representation from stakeholders across campus, including faculty, staff, students, a member of the Board and community members. This breadth of membership ensured diversity of perspectives, deep expertise and well- rounded experience. The Task Force included the following individuals:

Peter Barr (Chair, Alum)  
Goldi Gill (Staff)  
Sheryl Kennedy (Community member, Alum)  
Bilal Khan (Board member)  
Majid Mirza (Student)  
Blake Phillips (Faculty)  
Lev Pollock (Student)  
James Thompson (Faculty)  
Michael O. Wood (Faculty)

### Appendix B – Glossary of Investment Terms

- **Pooled Fund Investments** – Investment funds that are shared between a group of investors. The assets held within the pooled fund are generally owned by the investment fund, and investors hold and own units of the fund. Investors in pooled funds share in the fixed and variable costs that come with diversification and professional fund management, leading to lower costs. Pooled funds can be either active or passively managed. As these funds are owned by many investors, each investor has little influence on investment decisions.
- **Segregated Fund Investments** – Also referred to as Privately Managed Funds, these are assets that are owned by one investor. Management of the fund can be directly by the investor, or by an investment fund manager on their behalf. These funds are generally actively managed and, if managed by an investment fund manager, typically come with higher fees. As the investments are held directly by the investor, this provides the investor with a greater level of transparency and control over investment decisions.
- **Active Management** – Active management is an investment strategy where fund managers make buy, hold and sell decisions on individual assets with the goal of outperforming a particular benchmark. Actively managed funds typically come with higher fees to compensate a fund manager for a higher level of analysis.

- **Passive Management** – Passive management is an investment strategy where fund managers mirror or closely track a benchmark index, to achieve similar returns. Buy, hold and sell activities match changes to the benchmark index. Passively managed funds typically come with lower fees as there is less analysis involved in the process.

## Appendix C – Fiduciary Duty

The Task Force was provided an education session by a Canadian law firm regarding the fiduciary duties of the University and its Board in managing endowment and pension investments, which is summarized here.

To the extent that social factors relate to financial performance or risk mitigation, the University may — and at times should — consider social factors in their investment decision making.

Common law has established a “prudent investor” rule, which applies to both the endowment and the pension, and is recognized in the Board approved Statement of Investment Policies and Procedures (SIPP) for each the endowment investments and the pension investments. The prudent investor rule requires the Board and others involved in managing the institutional investments to exercise the care, skill, diligence and judgment that a prudent investor or prudent person would when making investment decisions for these funds.

There are additional requirements applicable to managing pension investments as compared to University endowment investments.

### **ENDOWMENT:**

For the endowment, the prudent investor rule requires that investment decisions must be made in the best interest of the University; specifically, in the best interests of funding in perpetuity the specific activities that the University and external endowment donors have agreed to in restricted purpose donation agreements, such as providing funding in perpetuity for specific student scholarships and bursaries or endowed chairs.

Investment decision making for the endowment can consider social factors within the overall rate of return objectives and risk framework for the fund. This means that social factors can be considered if relevant to financial performance or risk mitigation, over any time horizon (short-term or long-term). However, social factors cannot be the sole basis of investment decision making. The impact of social factors on performance or assumption of risk can be considered in the assessment process of any investment or of the endowment investment pool overall.

### **PENSION:**

The Board is the administrator of the Pension, which is a contributory defined benefit pension plan covering employees of the University. The Plan is registered under the Pension Benefits Act (Ontario).

The pension plan administrator has a statutory fiduciary duty. The pension plan must be administered in accordance with applicable legislation and plan/trust terms. Ontario pension legislation sets out the pension plan administrator's fiduciary standard of care or duty, which includes a prudent investor rule. The pension prudent investor rule requires a pension plan administrator to make investment decisions that are in the best financial interests of members (i.e. retirees or their beneficiaries, employees who are plan members, former employees who are deferred members, etc.).

Where a social factor is directly relevant to the financial performance (risk and return) of an investment, it is a relevant and proper investment consideration. Social factor integration is consistent with an administrator's fiduciary duty; but investing solely based on social purpose or values would not be. Any preference in favour, or absolute refusal to consider, an investment or class of investments based largely on social values is potentially a breach of trust or violation of the plan administrator's fiduciary duties. When weighing alternative investments, the social values can likely be safely relied upon as a "tie breaker" when deciding between otherwise equally financially prudent investments.

The pension plan administrator should not base investment decision making on "social values" but instead on the impact of social factors on the risk-return profile of an investment or investment fund taken together with other factors that impact risk-return.