



REPORT TO LONG-TERM PLAN AND BUDGET STANDING COMMITTEE

MEETING DATE: OCTOBER 8TH, 2014

Item:	Energy Sector Investment Report
Presenter:	Andrew Lalka, Vice President Finance
Purpose of Report:	For Information and Recommendation to Council
Item #:	6 a

Recommendation:

That the Long-Term Plan and Budget Standing Committee advise Council that the USC's financial investments are of a sound ethical and financial composition. Recommend to Council that no further action is required.

Background:

In February 2014 Stewart Ruffolo completed a draft Purple Paper for the Local and Campus Affairs Standing Committee of Council regarding investments in the energy sector. Mr. Ruffolo also presented a summary of his report to the 2014/15 University Students' Council at their first meeting on March 27th, 2014. In response to Mr. Ruffolo's presentation and call for action Council passed the following motion:

*USC 2014/15, Council Meeting #1
March 26, 2014*

Motion #2: Oil Divestment and USC Investments

Whereas the Local and Campus Affairs Committee considered a Purple Paper concerning oil divestment;

Whereas climate change is a global issue and Western and the USC do not have restrictions on their ability to invest in oil companies;

Be it resolved that the USC VP Finance inquire into the nature of the USC's investments, determine the financial impacts of oil divestment on the USC reserve fund, and report back to Council no later than the 4th meeting of the 2014/15 Council (October);

Be it further resolved that the 2014-15 Advocacy Group further investigate the proposals of EnviroWestern and Divest Western regarding oil divestment and solicit student feedback on the issue.

GRAINGER/Singh/Carried. C14/15.1.2

Report:

In response to Council's motion at their first meeting in March, the Vice President Finance (Spencer Brown), the Vice President Elect Finance (Andrew Lalka), and the Managing Director Corporate and Financial Resources (Carrie Passi, CPA, CMA) met with our Investment Advisor from TD Waterhouse (Alex Lau, CFP) and the Senior Vice President and Chief Investment Officer of our Fund Manager NEI Investments (Daniel Solomon, CFA).

Alex Lau presented a report summarizing the USC's investment portfolio with TD Wealth focusing on tranche divisions, past performance, and current position. The USC's monetary assets are split into two principal categories: a treasury account used for day to day operations and a savings portfolio that utilizes several investment vehicles to house internal reserve funds. The USC's reserve funds are divided into 4 primary categories: Cash & Cash Equivalents, Fixed Income (bonds), Canadian Equity, and Global Equity.

Cash & Cash Equivalents are housed in a four accounts with TD Waterhouse and represent approximately 60% of the reserve in order to maintain a high degree of liquidity. Cash & Cash Equivalents can be easily transferred into the USC's operating account to maintain organizational liquidity in our shoulder seasons or should major payments from the University arrive later than expected. Cash & Cash Equivalents earn interest that is comparable to the overnight lending rate.

Fixed Income (bonds), Canadian Equities, and Global Equity represent the remaining 40% of the reserve and are managed by NEI Investments. The funds invested in NEI are divided into four principle tranches: Fixed Income (bonds), Special Equities, Canadian Equities, and Global Equities. Since investing in NEI in March 2012 the USC has seen an annualized returns on the total investment of approximately 15%.

Daniel Solomon produced and presented a report written specifically for the Vice President Finance and Managing Director Financial Services of the USC summarizing NEI's Fossil Fuel Strategy and their commitment to ethical investing.

NEI provides socially responsible investment solutions that aim to minimize risk and deliver strong returns. NEI employs an 8-member team of responsible investing specialists who provide environmental, social, and governance (ESG) analysis and engagement. Their team is the largest of its kind in Canada.¹

NEI has a comprehensive program on climate change which includes significant engagement with the energy sector. They implement a multi-pronged strategy with all of the companies that they invest in including: Evaluations and Divestment, Engagement, and Public Policy Work.

¹NEI Investments, USC Investment Update to December 31 2013. Daniel Solomon, CFA & Alex Lau, CFP

NEI Ethical funds have a process in place that excludes companies that serve as impediments to progress on climate change, funding climate-denial organizations, explicitly lobby to scuttle legislative attempts to address climate change, or do not address the risks associated with their business model. The most high profile example is their exclusion of Exxon Mobil for its concerted campaign to undermine the scientific consensus on the man-made climate change.²

NEI engages the companies that they invest in to promote corporate disclosure of environmental impacts, promote real research and innovation, plan for a carbon pricing scenario, acknowledge the risks inherent in the sector and their business model, and support progressive policy. Their engagement with Suncor Energy over a number of years has led to their status as an example of industry best practice for environmental reporting and corporate policy position disclosure.³

On the public policy front NEI has actively supported a market wide mechanism to put a price on carbon. They see this as not only a moral imperative but also in the best interests of all sectors of the Canadian economy, including the energy industry. They have worked with industry partners and government to encourage more efficient practices that will ultimately be more sustainable. NEI's engagement in this area has also resulted in new reporting standards for both the government and key players in the energy sector that estimate the impact of a price on carbon.⁴

NEI employs a climate change strategy that includes divestment as one available tool in a broader arsenal to address a significant and persistent issue.

The financial impact of divesting from the energy sector has several aspects: scope of divestment, speed of divestment, changes to financial management and brokering fees, increased investment risk, and restrictions on investment options.

Should the USC pursue divestment from the energy sector we would need to articulate the scope and the breadth of that divestment. There are several possible interpretations. The most basic is divestment from direct holdings in the energy sector. A slightly broader interpretation would include the direct suppliers and primary consumers of the energy sector including major industrial manufacturers, the automotive industry, and the shipping and transportation sector. The broadest would include any investment that supports or is related to the energy sector which could theoretically include any financial institution or corporation who uses energy that was generated from petrochemical sources.

²NEI Investments, Fossil Fuel Strategy March 2014. Robert Walker, CFA

³NEI Investments, Fossil Fuel Strategy March 2014. Robert Walker, CFA

⁴NEI Investments, Fossil Fuel Strategy March 2014. Robert Walker, CFA

Concerning the speed of divestment, the USC's investments with NEI could be liquidated with limited penalty and re-invested in as little as 10 business days. The rate determining step would likely be the creation of the new investment portfolio. A new custom investment portfolio devoid of holdings in the energy sector would likely carry higher management fees than buying into an existing fund. It would also largely preclude the majority of major domestic holdings thereby restricting asset mix and increasing portfolio volatility and risk.

Appendices:

*NEI Investments, Fossil Fuel Strategy, March 2014. Robert Walker, Daniel Solomon, CFA
NEI Investments, Investment Update to December 31st 2013 Preface. Alex Lau, CFP*

Legislative History:

- [*Draft Purple Paper, Divest Western University From Fossil Fuels, S. Ruffolo, February 2014.*](#)
- [*Minutes, USC 2014/15 Council Meeting #1, March 26 2014.*](#)
- [*USC Motion #2, USC 2014/15 Council Meeting #1, March 26 2014.*](#)

Stuart Ruffolo, EnviroWestern Coordinator (USC 2013/14), presented a draft Purple Paper titled "Divest Western University From Fossil Fuels" to the Local and Campus Affairs Standing Committee of Council. The Committee accepted his report, however did not recommend the paper for ratification to Council. The paper remains in draft form to this date. Mr. Ruffolo made a presentation to Council on climate change and the impact of the petrochemical industry. He went on to suggest that Council divest the USC from oil and lobby the University to do the same. Council passed Motion #2 requesting a report to determine the nature of current USC investments, report on the feasibility of divestment, and assess the feasibility of lobbying the University to divest.

Next Steps:

- *The Long-Term Plan and Budget Committee has the following options available to it:*
 - o *Accept the report, present it to Council as an item for information, and recommend that no further action be taken;*
 - o *Reject the report, task the Vice President Finance with drafting another report for the Committee's consideration, and recommend to Council that no further action be taken until further notice;*
 - o *Reject the report and make their own recommendation to Council.*

Sign-Offs:

<i>Council Review:</i>	<i>Jack Litchfield, LTPB Chair</i>	
<i>Executive Review:</i>	<i>Matt Helfand, President</i> <i>and</i> <i>Andrew Lalka, Vice President Finance</i>	
<i>USC General Manager Review:</i>	<i>Cathy Clarke, General Manager</i>	
<i>USC Human Resources Review:</i>	<i>Karla Pacheco, Human Resources Manager</i>	
<i>Financial Review:</i>	<i>Carrie Passi, Managing Director Corporate and Financial Resources</i>	
<i>Legislative Review:</i>	<i>Scott Courtice, Managing Director Government Services</i>	