



# **BUILDING A TOOLKIT FOR EFFECTIVE, ETHICAL AND RESPONSIBLE RESPONSES TO DIVESTMENT CAMPAIGNS**

February 2017

*Workshop Summary*

# Acknowledgement

## Guest Speakers

**Judy Cotte**, Vice-President and Head, Corporate Governance & Responsible Investment - RBC Global Asset Management ("RBC GAM")

**Dr. Tessa Hebb**, Senior Research Fellow and Past Director - Carleton Centre for Community Innovation, Carleton University

**Christie Stephenson**, Executive Director - Peter P. Dhillon Centre for Business Ethics, The University of British Columbia Sauder School of Business

**Kevin Thomas**, Director of Shareholder Engagement - Shareholder Association for Research & Education (SHARE)

## CAUBO Member Speakers

**David Estok**, Vice-President Communications - University of Toronto

**Deidre Henne**, AVP (Administration) & CFO - McMaster University

**Robert Inglis**, Vice-President, Finance and Administration - Mount Allison University

**Laura O'Neill**, Staff Representative - B.C. Government and Service Employees' Union

**Colin Spinney**, Treasurer - Dalhousie University

**Peter Smailes**, Treasurer - The University of British Columbia

# Introduction

Divestment campaigns targeting the fossil fuel industry have become a prominent occurrence for Canadian higher education institutions in recent years, and it is anticipated that this trend will not end anytime soon. From November 24-26, 2016, CAUBO hosted a workshop in Toronto, Building a Toolkit for Effective, Ethical and Responsible Responses to Divestment Campaigns.

This workshop was designed to help institutions respond to divestment requests in such a way as to ensure ***their fiduciary responsibilities, social objectives, and environmental concerns are duly considered, carefully balanced, and positively conveyed.***

This workshop was designed with four primary objectives in mind:

1. Ensure a common understanding of the issues and terminology;
2. Position current divestment requests received by Canadian universities in their broader context;
3. Share experiences of Canadian higher education institutions to date regarding fossil fuel divestment campaigns; and
4. Go beyond general information sharing by allowing participants to synthesize, prioritize and apply the presented content in a way that aligns with the needs and circumstances of Canadian higher education institutions.

What follows is an overview of the workshop's key themes and discussion. This guidance is flexible enough to accommodate the differing needs and circumstances of individual institutions. The first section, "An Evolving Landscape," summarizes main messages from the workshop's four expert speakers (see appendix for details).

The second section, "Specific Considerations," drills into the details of an effective responsible investing policy, based on participant Q&A with presenters. The third section, "Learning from Other Institutions," reports on learnings from a panel of university administrators from institutions that have experienced fossil fuel divestment requests and by a presenter who spoke on the responses of Canadian universities to divestment requests to date.

The fourth section, "Responding to Divestment Campaigns," synthesizes the results of a group exercise in which participants identified the most important actions for university administrators during each stage of a divestment request. A final section reiterates major takeaways and suggests potential next steps for CAUBO.

## CONTENT

1. *An Evolving Landscape*
2. *Specific Considerations*
3. *Learning from Other Institutions*
4. *Responding to Divestment Campaigns*

# An Evolving Landscape

Workshop presenters observed that Canadian university administrators are operating in an evolving investment context, one which is shifting towards responsible investment – investing that integrates environmental, social and governance (ESG) factors:

- Judy Cotte reported that the integration of ESG factors into investment decision-making constitutes a lasting trend, rather than a temporary fad.
- Kevin Thomas traced the evolution of fiduciary duty in major milestone reports, observing that trustee consideration of ESG factors has shifted from “prohibited” to “permissible” to now “required.”
- Both Judy Cotte and Christie Stephenson linked the trend towards responsible investing to growing recognition of the potential material impact of ESG factors (long term sustainability, stability and risk management) on investments.

With regards to climate change in this shifting investment landscape:

- Kevin Thomas reported that climate change is expected to have a significant material impact on portfolios due in part to the risk of stranded assets and physical damage to holdings from changing weather patterns.
- He also noted that some legal advisers now consider ignoring climate risks to be a breach of fiduciary duty.

All presenters acknowledged the urgency of climate change; however, they found responsible investment policies to be a better approach for universities than fossil fuel divestment to facilitate meaningful climate action and manage climate risks:

- Christie Stephenson reported that fossil fuel divestment is difficult in the Canadian context due to the market’s high volume of extractives companies (over 20% of the Canadian economy is tied to the energy sector).
- She also noted that Canadian higher education institutions could face distinct challenges from fossil fuel divestment, such as strained relationships with donors and loss of research funding.
- University divestment from fossil fuels was seen as being a limited means of effecting climate change action, as:

1. The amount of university capital invested in fossil fuel holdings is not substantial enough to have a market impact if divested (divestment would be a purely symbolic gesture).
2. Divestment from fossil fuel companies address extraction and production only and does not address consumption of fossil fuels and other climate change causes that exist.
3. Divestment results in lost opportunities for engagement and shareholder activism.

Presenters introduced the concept of an “investor tool kit” to not only help participants respond to pressure for climate action, but to better navigate the evolving investment landscape generally.

Kevin Thomas and Dr. Tessa Hebb stated that, for each institution, implementing this tool kit begins with refining institutional investment beliefs, which then informs investment policies and guidelines for practice.

While this tool kit was discussed in the context of fossil fuel divestment campaigns, it was seen as comprehensive enough to address future divestment requests, the nature of which remain unknown.

Christie Stephenson and Kevin Thomas identified two categories of tools (Portfolio Construction Tools and Engagement and Advocacy Tools), recommending that attendees draw from both (see appendix for more information).

Kevin Thomas emphasized that while proponents of fossil fuel divestment tend to be skeptical of shareholder engagement, it can pressure companies to develop climate change strategies, reduce emissions, and restrict questionable lobbying tactics, among other things.

He noted that shareholder engagement and proxy voting are currently underutilized tools for universities, as an institution’s votes on shareholder resolutions are counted whether a vote was cast or not.

Kevin advanced “4Cs” to guide universities in active ownership: Comprehensive, Collaborative, Committed, and Creative. Tessa Hebb suggested a fifth C: Communicated.

With regards to climate change specifically, Kevin advised attendees to start with the question: “What problem are we trying to solve?” He presented a further “4Rs” to guide shareholder engagement on climate issues: **Reduce, Remedy, Reallocate, and Regulate.**

### The 4Cs for Effective Shareholder Engagement

1. **Comprehensive:** engage with a holistic lens and deep understanding of issues to address a range of challenges and risks to value. Climate change, for instance, is not only about emissions, but also about consumption, government policy, and human rights.
2. **Collaborative:** identify and build on opportunities for collective action with other shareholders and relevant stakeholders.
3. **Committed:** engagement must be sustained and with a focus on hard outcomes, not endless discussion.
4. **Creative:** focus on problem solving and finding the best means to drive solutions.

## The 4Rs for Shareholder Engagement on Climate Change

1. **Reduce:** climate change is driven by the consumption of fossil fuels, not the supply. There are plentiful opportunities for engaging with sectors that drive up energy demand, such as transportation, building, and retail sectors.
2. **Remedy:** proponents of divestment have fairly challenged the quality of shareholder engagement. Universities can alleviate these concerns by being active investors.
3. **Reallocate:** some conventional energy companies also invest in alternative energy. Universities can use engagement to shift corporate assets towards low-carbon investments.
4. **Regulate:** shareholder engagement can be used to block anti-climate lobbying and encourage climate-friendly public policy efforts.

# Specific Considerations

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Discussions with workshop presenters raised several points about an effective responsible investing policy. Multiple attendees inquired about **oversight of external fund managers**. Speakers Judy Cotte and Christie Stephenson observed that not all investment managers consider ESG equally; both encouraged attendees to ask “tough questions” of external investment teams and expect a high level of granularity in responses.

Christie Stephenson also noted that some firms leave proxy voting to individual fund managers, meaning that different individuals within the same firm can cancel out each other’s votes. Attendees were encouraged to not simply default to external managers’ decisions, but rather, to be informed and involved.

Another question pertained to the **effectiveness of carbon footprinting for investment portfolios**. Christie Stephenson indicated that this can be a useful tool but cautioned that results are hard to interpret without specialized knowledge. She suggested they be only part of a broader decision making framework and climate change strategy.

Anticipating questions about the **constraints of pooled funds on a responsible investing policy**, Kevin Thomas acknowledged that this can deprive universities of direct control over their proxy votes. He noted, however, that pooled fund managers can vote proportionally based on the positions of individual institutions, and that universities can still seek to engage and influence investment teams.

Discussion also took place around the **differing policies governing university endowments and university pension funds**, with divestment campaigns predominantly targeting the former. Panelist Laura O’Neill of UBC’s Staff Pension Plan Board stated that while pension trustees have more constraints on what they can do than endowment managers, the knowledge and experience cultivated through responding to divestment campaigns can be applied to both.

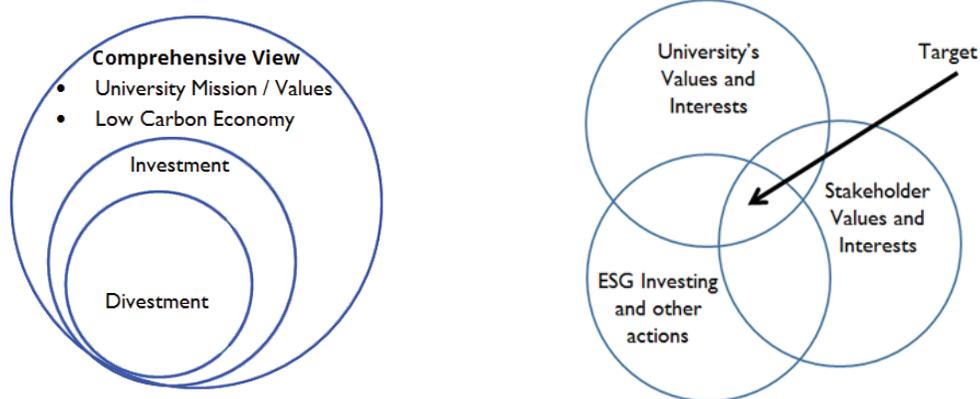
Lastly, participants raised questions about the fact that **proponents of fossil fuel divestment may reject or be skeptical of responsible investing policies**. Christie Stephenson replied that responsible investing need not be framed as a half-measure and that attendees may sometimes need to draw attention to gaps in the divestment argument.

Kevin Thomas and Dr. Tessa Hebb acknowledged the potential for criticism of responsible investing, and stressed that the remedy to this criticism is committed action and engagement. Dr. Hebb stated that it is incumbent upon universities to demonstrate that their chosen approach is not greenwash, and is part of a broader, institution-wide effort to support the transition to a low-carbon economy.

# Learning from Other Institutions

A panel of university administrators, whose institutions have experienced fossil fuel divestment campaigns, and a presentation overviewing the responses of Canadian universities to divestment requests to date imparted several key insights. The most important was the **need to be proactive**. Most university responses to fossil fuel divestment campaigns in Canada have been reactive. A proactive approach reduces the potential for conflict between divestment proponents and administrators, and can help avoid reputational blows from delays or gaps in communications.

A second insight was the potential value in **taking a comprehensive approach to divestment requests**. A comprehensive approach that recognizes the true issue at hand (climate change concern) may create opportunities for deeper dialogue, potential collaboration between divestment proponents and institutions and expand the range of response options. Fossil fuel divestment campaigns are not solely about investments: they are part of a broader goal and message that calls for decisive action on climate change by universities. Approaching divestment requests as a binary issue, to divest or not divest, risks missing the underlying drivers of these campaigns and may result in proponents feeling unheard.



A comprehensive approach to divestment requests allows for holistic, multidimensional responses to these campaigns that see universities leveraging not only their role as investors, but also their role as educators, researchers, innovators, and consumers. For instance, **course offerings, research, and campus sustainability initiatives may become part of an institution's response to divestment requests, along with specific investment policies.**

This type of approach was demonstrated by the University of Toronto's "Beyond Divestment" response to a fossil fuel divestment campaign. Such a strategy requires the involvement of multiple university departments. A **matrix response approach to divestment requests** can ensure an effective, coordinated, comprehensive set of actions while also easing the burden on one individual or department.

A final set of insights pertained to **communication**, which panelists saw as key to successfully managing divestment requests. Engagement with divestment proponents, the broader campus community, and other key stakeholders was seen as a valuable part of establishing parameters for the discussion, ensuring campaigners felt heard, and creating opportunities for meaningful dialogue. Panelists reported several communications-related challenges in their experience with fossil fuel divestment campaigns, including the prevalence of misinformation, the rapid utilization of social media by university critics, and the media's tendency to oversimplify the issue.

Panelists advised attendees to **"own the issue" in public relations rather than be silent or communicate defensively**, which can be misconstrued by critics. "Owning the issue" involves communicating often and proactively, framing the narrative, and showcasing positive action taken by the university. One panelist summed up this advice: "tell your own story, use your own frame, use your own channels, and be first."

# Responding to Divestment Campaigns

To prioritize and apply information from presenters, participants worked in small groups to identify the two most important steps for university administrators to take in each stage of a divestment request – before, during and after. Their answers are synthesized below, with bolded points receiving the most consensus.

## Before divestment request is received:

1. Evaluate and clarify broader institutional values and investment beliefs, and ensure these are incorporated into investment policy
2. Scan portfolio, practices, proxy voting record, etc. to understand current status as an investor
3. Proactively establish a process for handling divestment requests
4. Anticipate communication needs and establish communication strategy
5. Educate broader campus community on investment practices as well as broader sustainability efforts
6. Acknowledge students as a force for positive change

## After decision made:

1. Develop a follow up action plan and deliver
2. Continue communicating and reporting on progress
3. Regularly review investment policies and practices to keep up with evolving space; adjust as necessary
4. Undertake a post-mortem of the experience to inform process for future divestment requests
5. Continually monitor to know what might be coming next, New issues such as truth and reconciliation with our indigenous communities are on the horizon. Prepare for the next issue before it emerges.

## During divestment request:

1. Consult with those presenting the request to understand specific objectives, clarify key terms, and explain decision-making process – and do so in an appropriate setting
2. Consult across university to see if views of divestment proponents are widely shared and identify views of other relevant stakeholders
3. Communicate, communicate, communicate – strive to be transparent and to get ahead of the issue!
4. Ground approach within institution's broader beliefs
5. Follow established process for consultation and decision-making to ensure consistency and fairness

Attendees were mindful of the resources involved in responding to divestment requests. Drawing on the experiences of panelists, for instance, participants estimated that at least 10-12 months should be budgeted for consultations once divestment requests are received.

# Summary

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Workshop attendees were encouraged to consider a proactive approach to fossil fuel divestment campaigns that recognizes the shifting investment landscape and broader climate change goals underpinning these requests, so as to ensure effective, responsible and meaningful responses to them.

A well-stocked “investor tool kit” was presented as one component of this response, and a comprehensive lens on divestment questions was seen as potentially helpful in managing the public relations challenges associated with divestment campaigns, while also creating new opportunities for dialogue, collaboration, and impact.

Communication and engagement with a range of actors, including divestment proponents, the broader campus community, investment managers, subject matter experts, and other stakeholders, emerged as key components of a successful response, as identified by panelists experienced with fossil fuel divestment campaigns.

Looking ahead, Dr. Tessa Hebb reminded attendees that responsible investment policies will not have a meaningful impact nor prepare institutions for future divestment challenges if they are simply left on a shelf.

A potential future role for CAUBO emerged in coordinating shareholder engagement by its members, as participants noted the limited resources of smaller institutions and the common holdings across university portfolios. CAUBO has committed to exploring this further.

## Key Terms

### *ESG factors:*

environmental, social and governance factors seen as relevant to investment decision-making. These factors are used to assess a company’s environmental and social impacts and management, as well as the quality of its corporate governance, and the investment risks related to these issues.

### *Responsible investing (RI):*

investing that integrates environmental, social and governance (ESG) factors. Responsible investing is related to but distinct from ethical investing, socially-responsible investing, impact investing and green investing, and is increasingly driven by a business case rationale rather than morale rationale. RI encompasses a range of strategies, including ESG integration, positive screening, and best-of-sector screening.

### *Socially-responsible investing:*

investing that considers environmental, social and governance (ESG) factors but typically driven by a moral case rather than a business case. May be more likely than mainstream responsible investing to include negative screens on entire sectors, such as tobacco, gambling, alcohol, or weapons.

# The Investor Tool Kit

## Portfolio Construction Tools

**DIVESTMENT:** withdrawing assets from certain companies, industries or sectors. For instance, investors may choose to divest from companies responsible for gross human rights abuses or those that derive a certain percentage of their profit from the most carbon-intensive fossil fuels.

### TARGETED INVESTMENT/RE-INVESTMENT:

- **Thematic investing:** targeting investments based on long-term, macro-level trends (“themes”), such as those resulting from demographic, cultural and/or technological changes. Thematic investments often span geographies and industries. Common themes include energy efficiency and green infrastructure.
- **Impact investing:** investing with the intention of generating a measureable positive social or environmental impact alongside a financial return.

### SCREENING/INTEGRATION:

- **Negative screening:** avoiding investment in certain companies, sectors and/or industries (may follow divestment)
- **Positive screening:** seeking companies in portfolios on the basis of positive ESG performance
- **Best-of-sector investing:** similar to positive screening, this approach targets companies for investment on the basis of strong ESG performance relative to their industry peers
- **Baseline approach:** applying a minimum benchmark for ESG management on all investments.
- **ESG integration:** combining systematic ESG research and analysis with traditional financial analysis.

## Engagement and Advocacy Tools

- **Shareholder engagement:** using the role of shareholder to influence corporate behaviour, such as engaging in dialogue with company management or filing/co-filing shareholder resolutions.
- **Proxy voting:** instructing investment managers to vote on shareholder resolutions to support ESG-related goals. For instance, universities can instruct investment managers to vote in favour of resolutions calling for the development of corporate climate change management plans.
- **Public policy advocacy:** supporting public policy efforts to improve transparency and management around ESG issues for investors, such as strengthening corporate disclosure requirement

Visit the [CAUBO Knowledge Centre](#) for further resources.